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BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

PUBLIC SERVICE
COMMISSION

In the Matter of

THE APPLICATION OF SOUTH ANDERSON WATER)
DISTRICT, ANDERSON COUNTY, KENTUCKY, (1) FOR)
A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY) CASE
AUTHORIZING CONSTRUCTION OF MAJOR ADDITIONS) NO.
AND IMPROVEMENTS TO ITS WATER SYSTEM;) <u>2005-0344</u>
(2) SEEKING APPROVAL OF REVISED WATER)
SERVICE RATES AND CHARGES; AND (3) SEEKING)
APPROVAL OF THE ISSUANCE OF CERTAIN SECURITIES.)

The Applicant, South Anderson Water District, Anderson County, Kentucky (the "District"), acting by and through its Commission, respectfully tenders this Application and requests that the Public Service Commission of Kentucky enter its Order pursuant to KRS 278.023 and 807 KAR 5:069 granting a Certificate of Public Convenience and Necessity authorizing the District to construct major additions and improvements to its water system (the "System") for the purpose of furnishing an adequate supply of pure and potable water for domestic, agricultural and commercial use in the District, approving the adjustment of water rates and charges to be levied and collected by the District and approving the issuance of certain securities by the District. In support of this Application and in conformity with the rules of the Public Service Commission, the District states as follows:

1. The District was established by Order of the County Court of Anderson County, Kentucky, entered under date of May 5, 1967, pursuant to the provisions of KRS 74.010. The District is now, and has been since its inception, regulated by the Public Service Commission of Kentucky, and all records and proceedings of the Public Service Commission with reference to the District are incorporated in this Application by reference.

2. The governing body of the District is its Commission, and in conformity with KRS 74.020(1)(a) the County Judge/Executive of Anderson County has entered appropriate Orders from time to time appointing and reappointing the present Commissioners who were and are residents of the District, such present Commissioners, and their respective offices, being as follows: Bob Kincer, Chairman, George Kinne, Secretary, and Janet Bryant, Treasurer. Each of the three Commissioners has qualified for office. The mailing address of the District is 246 East Court Street, P. O. Box 16, Lawrenceburg, Kentucky 40342, Attention: Bob Kincer, Chairman.

3. The District has previously issued and has outstanding the following revenue bonds payable from the income and revenues of its water system:

- (a) Water System Revenue Bonds, Series of 1975;
- (b) Water System Revenue Bonds, Series of 1981;
- (c) Water System Revenue Bonds, Series 1993;
- (d) Water System Refunding Revenue Bonds, Series 1999A; and
- (e) Water System Revenue Bonds, Series 2001.

The above-identified revenue bonds of the District were issued pursuant to approving orders of the Public Service Commission.

4. The District's consulting engineers, Kenvirons, Inc., Frankfort, Kentucky (the "Engineers"), have prepared a Preliminary Engineering Report and a Final Engineering Report as well as detailed plans and specifications for the construction and installation of proposed major additional water facilities and improvements (the "Project") to serve the District. The Preliminary Engineering Report dated February 2004 and the Final Engineering Report dated August 18, 2005, are appended hereto as Exhibit A and Exhibit B, respectively. These Exhibits contain, among other things, descriptions of the Project, cost figures and other pertinent data.

It is the opinion of the Commissioners of the District that the public health, safety and general welfare of the citizens and inhabitants of the District will be promoted and served by the construction of the Project and the financing thereof as herein described.

5. The District has caused public advertising to be made according to law soliciting competitive bids for the construction and installation of the Project; has received, opened and considered the construction bids; and has filed with the United States Department of Agriculture, Rural Development (“USDA”), the data prepared by the Engineers showing the bids received and the recommendations of the Engineers with respect thereto. USDA has approved the District's proposed award of the best bids as evidenced by the USDA letter of concurrence in the bid awards appended hereto as Exhibit C.

The District hereby states, through its undersigned Chairman and upon the advice of the Engineers, that the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066, Section 4(3) and (4), Section 5 (1), Sections 6 and 7, Section 8(1) through (3), Section 9 (1) and Section 10; that all other state approvals or permits for the Project have been obtained; that the proposed water rates of the District will produce total revenue requirements as set out in Exhibit B; and that construction of the Project is expected to begin on or about October 1, 2005, and to end on or about July 1, 2006.

6. The proposed adjusted water rates and charges of the District are set out in a Notice of Adjustment of Water Rates which is appended hereto as Exhibit D and has been published in the legal newspaper in Anderson County. The newspaper clipping evidencing such publication is appended hereto as a part of Exhibit D.

7. The estimated costs of and sources of funds for the Project are set out in Exhibit B and in Exhibit F identified below.

8. As shown in Exhibit B and in Exhibit F, the District proposes to finance, in part, the construction and installation of the Project by the issuance of its bonds, to be styled “Water

System Revenue Bonds, Series 2005,” in the principal amount of \$350,000 (the “Bonds”). A recent preliminary draft of a proposed bond-authorizing Resolution of the District authorizing \$350,000 of bonds is appended hereto as Exhibit E.

The District has entered into a loan agreement with USDA pursuant to which USDA will make a loan to the District of \$350,000, to be represented by the Bonds. The Bonds are expected to bear interest at the single rate of 4.375% per annum. Appended hereto as Exhibit F are copies of letters from USDA to the District setting forth terms, conditions and understandings relating to the loan, together with related USDA correspondence regarding the principal maturities of and interest rate on the Bonds.

With reference to the proposed issuance of the Bonds to USDA, the proceedings relating thereto will provide for the public advertisement of competitive bids for the Bonds according to Kentucky law; and in the event a bid or bids are received for the Bonds at an interest cost basis to the District more advantageous to the District than the loan commitment of USDA, the Bonds will be sold to such other bidder. However, it is not expected any more favorable bids will be received. The Bonds will not be delivered to USDA until such time as at least 80% of the available funds has been spent on the Project. This procedure is in accord with USDA rules requiring interim financing of USDA projects to the amount of the USDA loan. Accordingly, construction of the Project will be instituted and funded initially from the proceeds of an interim financing loan to be obtained from the Kentucky Rural Water Finance Corporation (“KRWFC”) at a rate not expected to exceed 3.85% per annum. The interim loan will be secured by (i) the undisbursed proceeds of the interim financing loan and (ii) the proceeds of the Bonds when delivered to USDA according to USDA practices and procedures.

Interim financing is also available to the District from USDA in the event other interim financing sources are not available or are unreasonable.

9. The Commission of the District respectfully represents to the Public Service Commission that there is a genuine need and demand for the Project and that the Commission should enter herein its Order, in compliance with KRS 278.023 and KAR 5:069, (a) issuing its Certificate of Public Convenience and Necessity pursuant to KRS 278.020 authorizing construction and installation of the Project, (b) approving the proposed schedule of water service rates and charges and (c) authorizing pursuant to KRS 278.300 the issuance of \$350,000 aggregate principal amount of Bonds by the District as described herein.

WHEREFORE, the Applicant, South Anderson Water District, respectfully requests that such Order be issued.

Respectfully submitted,

SOUTH ANDERSON WATER DISTRICT

By Bob Kincer
Bob Kincer
Chairman of the Commission

Raymond M. Edelman
Raymond M. Edelman
150 South Main Street
Lawrenceburg, Kentucky 40342
Telephone: (502) 839-5111
Counsel for the District

William W. Davis
William W. Davis
Ogden Newell & Welch PLLC
1700 PNC Plaza
Louisville, Kentucky 40202
Telephone: (502) 560-4257
Bond Counsel for the District

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF ANDERSON)

I, Bob Kincer, being first duly sworn according to law, state that I am Chairman of the Commission of South Anderson Water District, Anderson County, Kentucky, that I have read the foregoing Application, and that the statements of fact set forth therein are true and accurate to the best of my knowledge and belief.

WITNESS my signature this 25th day of August, 2005.

Bob Kincer
Bob Kincer

Subscribed and sworn to before me this 25 day of August, 2005. My commission expires 11/24/06.

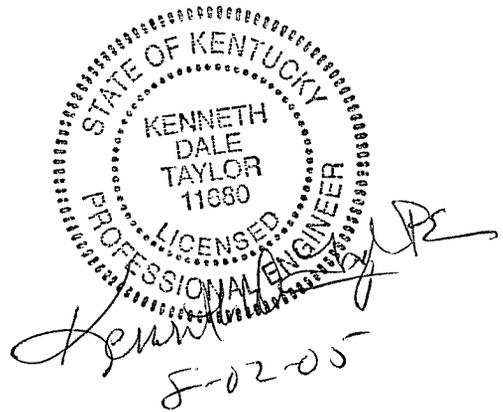
Laura Harkes
Notary Public
Commonwealth of Kentucky

Exhibit A

**PRELIMINARY ENGINEERING REPORT
PHASE VI EXPANSION PROJECT
SOUTH ANDERSON WATER DISTRICT
LAWRENCEBURG, KENTUCKY**

PROJECT NO. 2003133

FEBRUARY 2004



PRELIMINARY ENGINEERING REPORT

PHASE VI EXPANSION PROJECT SOUTH ANDERSON WATER DISTRICT

I. INTRODUCTION

The South Anderson Water District (SAWD) was originally formed to provide a safe, dependable supply of potable water to the citizens of southern Anderson County. Since its inception in 1967, the SAWD has grown until it serves approximately 2105 customers over a large portion of the County including some in the northern portion of the County. SAWD intends to eventually make treated water available to every citizen within its boundary. This project will go a long way toward accomplishing this as it extends service to 10 separate areas of the county. SAWD anticipates serving approximately 240 new users on the extensions. The proposed facilities are modest in design, size and cost and will be constructed and operated in an environmentally responsible manner.

II. PROJECT PLANNING AREA

Included as Exhibit 1 is a map of Anderson County with SAWD's boundary, existing facilities and proposed facilities indicated. The planning area for the proposed project includes all of the area within SAWD's boundary as the entire distribution system must be designed to ultimately provide treated water to the entire area. Toward this goal the facilities previously constructed and planned by SAWD have been designed to provide the necessary volume and pressures for the completed system. The proposed facilities are shown on Exhibits II -IV which are portions of the USGS 7.5 minute topographic maps of the areas. The specific areas to be served by the project include all or parts of the following roads:

The project will address a serious problem faced by the residents of these areas, that being the lack of a safe, dependable water supply. The personal health and safety of the residents are threatened by contaminated water sources. A majority of the families are also forced to haul water, creating a financial burden. The District has sampled a cross-section of the water supplies in the area and the majority were contaminated by coliform or other bacteria. Tests conducted by a private water testing lab indicated that 95% of all cisterns and springs had coliform contamination and that 25% were contaminated with the deadly E. Coli bacterium. Exposure to E. Coli can lead to a range of maladies, from stomach cramps to total kidney failure. The homes in the project area are mostly clustered together along the ridge lines, where outhouses (approximately 4) and straight pipes (approximately 27) prevail. Twenty-one (21) households reported various intestinal infections from their water supplies, ranging from colitis to diarrhea/stomach aches.

There are no known or anticipated unusual construction conditions. Due to shallow soil depths in much of the area, the unit cost per foot of water line will be slightly higher than in some other areas of the state. The District is not aware of any environmentally significant features, historic sites or important land resources which will be adversely impacted by the project.

III. EXISTING FACILITIES

The District's distribution facilities now consist of approximately 12 miles of 8", 60 miles of 6", 76 miles of 4" and 7 miles of 3" distribution line; 3-100,000 gallon, 1-131,000 gallon and 1-184,000 gallon storage tanks; 2-100 gpm, 1-200 gpm, 1-220 gpm and 1-420 gpm booster pump stations; and assorted accessories such as gate valves, and blow-off hydrants/valves. All of the system is less than 30 years old and the majority is less than 10 years old. All existing facilities are in good to excellent working condition.

The District currently purchases all water. It has a contract with the City of Lawrenceburg for up to 10 million gallons per month through 2037 and one with the Frankfort Plant Board for up to 3.1 million gallons per month through 2040.

Given in the attached Summary/Addendum are the District's current rate schedules, tabulation of users by monthly usage categories, status of existing long-term indebtedness and amounts on deposit in the required reserve accounts. The District is physically and economically sound.

IV. PROPOSED FACILITIES AND SERVICES

General Description. The proposed project consists of approximately 198,000 feet of four inch water line and distribution system appurtenances such as gate valves, air release valves, blow-off valves, meters, etc. A 50 gpm booster pump station and a 50,000 gallon elevated storage tank are also included in the project. The distribution lines will be primarily of PVC. Some small sections of ductile iron pipe may be used in special areas, i.e., stream crossings, past gas tanks, etc. The facilities will be designed to provide the customers with a minimum pressure of 30 psi at the meter at peak flow conditions. Where static pressures exceed 90 psi, individual pressure regulators will be provided to protect fixtures from high pressures.

The booster pumping station will be designed to maintain a minimum operating level in the elevated tank about 6 feet lower than the overflow elevation of the tank. This will require pumping to begin when the water level in the tank drops to the minimum operating level; pumping will continue until the tank is refilled to just below the overflow level. This procedure will provide adequate pressure stabilization of the system. The hydraulic model of the system is currently being updated to include the proposed project and significant results of the model will be appended to this report when completed.

The locations of the major elements of the project are shown on the attached county road map and portions of the U.S.G.S. topographic maps. An itemized cost estimate is given in Attachment I. The extension of the District's distribution facilities is the only viable alternative for providing water service to these areas of the County.

Land. It will be necessary to acquire land on which to construct the booster pump station and the storage tank. A tract approximately 30' x 30' will be needed for the booster pump station and a tract approximately 100'x100' will be needed for the elevated storage tank. The approximate locations of these facilities are shown on the attached maps, however, the location may vary depending on the ability to acquire the land.

Rights. Easements will be required for the water distribution lines, many of which will be given by the individual customers. By necessity, some easements for the distribution lines will be on State and County road right-of-way.

No easements have been obtained at this time for the proposed work. A permit has been obtained from the Ky. Division of Water for the construction of the project. It is anticipated that in addition to the land requirements previously mentioned, permits and/or approvals will be required from the following agencies:

Kentucky Public Service Commission
 Kentucky Department of Transportation
 Anderson County Fiscal Court

V. COST ESTIMATE

TABLE 1

PRELIMINARY PROJECT COST ESTIMATE
 PHASE VI EXPANSION PROJECT
 SOUTH ANDERSON WATER DISTRICT
 LAWRENCEBURG, KENTUCKY

Construction Cost Estimate	\$ 1,712,325.00
Contingency	171,200.00
Engineering (Basic)	127,200.00
Construction Inspection	66,600.00
Other Engineering (Geotechnical, Archaeological, Surveying, Preliminary Engineering Report)	12,000.00
Legal	17,000.00
Land and Rights	12,000.00
Interest	15,000.00
Administration/Planning	<u>40,000.00</u>
TOTAL	\$ 2,173,300.00

VI. FEASIBILITY STUDY

It is anticipated that this project will be funded with tap fees, a loan and grants. This section contains an economic feasibility analysis to determine the affect of additional borrowing on the District's financial integrity and the possible need for a rate adjustment. The District supplied computer generated billing data for the year beginning September 2002 through August 2003 from which the billing analysis was prepared. The annual operating budget was developed adjusting the 2002 Annual PSC Report and Audit for the additional customers, inflation, employee pay raises, etc.

VII. EXPENSES

Operation and Maintenance Expense

TABLE 2

PROJECTED OPERATION AND MAINTENANCE EXPENSE

Salaries, Wages, Taxes and Benefits	\$180,000.00
Repairs	4,000.00
Insurance	10,000.00
Utilities (Operating and Office)	20,500.00
Materials and Supplies (Operating and Office)	40,000.00
Professional Fees	20,000.00
Transportation Expense	10,000.00
Miscellaneous	10,000.00
P.S.C. Assessment	1,200.00
Rental of Building	6,000.00
Water Testing	1,500.00
Water Purchases	<u>200,800.00</u>
 TOTAL	 \$503,500.00

Debt Repayments

TABLE 3

EXISTING DEBT SERVICE REQUIREMENTS

<u>Bond Issue</u>	<u>Balance As of Jan. 1, 2006</u>	<u>Interest Rate</u>
1975	\$ 95,000	5%
1981	34,000	5%
1993	592,000	5.5%
1999	745,000	4.9%
2002	<u>1,060,000</u>	5%
	\$1,528,000	

PRINCIPAL MATURITIES - JANUARY 1

<u>Bond Issue</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1975	8,000	8,000	8,000	9,000	9,000
1981	1,500	1,500	1,500	1,500	1,500
1993	9,000	9,000	10,000	10,000	11,000
1999	25,000	25,000	25,000	25,000	30,000
2002	<u>11,000</u>	<u>11,000</u>	<u>12,000</u>	<u>12,000</u>	<u>13,000</u>
	54,500	54,500	56,500	57,500	64,500

5 - Year Average = \$57,500.00

Interest on Long Term Debt

<u>Bond Issue</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1975	\$4,750.	\$4,350.	\$3,950.	\$3,550.	\$3,100.
1981	1,700.	1,625.	1,550.	1,475.	1,400.
1993	32,560.	32,065.	31,570.	31,020.	30,470.
1999	36,505.	35,280.	34,055.	32,830.	31,605.
2002	<u>53,000.</u>	<u>52,450.</u>	<u>51,900.</u>	<u>51,300.</u>	<u>50,700.</u>
	\$128,515.	\$125,770.	\$123,025.	\$120,175.	\$117,275.

5 - Year Average = \$122,952.

5-Year Average Principal Plus Interest Payment	=	\$180,452.00
10% Debt Coverage	=	<u>18,048.00</u>
Total Existing Debt Service	=	\$198,500.00

Depreciation - Existing/Planned Facilities

Existing Utility Plant* - (\$6,072,602.00 ÷ 45)	=	\$134,947.
Proposed Phase VI Project – (\$1,839,525.00 ÷ 45)	=	<u>40,878.</u>
TOTAL	=	\$175,825.

Proposed Phase VI Project Debt Repayment

\$350,000.00 Loan @ 5% - \$350,000.00 (0.05928)	=	\$20,748.
10% Debt Coverage	=	<u>2,075.</u>
		\$22,823.

Total Yearly Expenses

Operation and Maintenance	\$503,500.00
Existing Debt	198,500.00
Depreciation	175,825.00
Proposed Project Debt Repayment	<u>22,823.00</u>
TOTAL	\$900,648.00

*From 2002 Audit

TOTAL REVENUES

Sale of Water (see table on following sheet)	\$784,513.96
Service Fees	15,000.00
Interest on Accounts	<u>10,000.00</u>
Total Revenues	\$809,513.96

South Anderson Water District Phase VI Water Line Extensions

Opinion of Probable Cost

February 19, 2004

Item No.	Item	Unit	Quantity	Unit Price	Item Price
1	4" PVC SDR-21 Pipe	LF	177,000	\$5.60	\$991,200.00
2	4" PVC SDR-17 Pipe	LF	21,000	6.25	131,250.00
3	Bore & Case for 4" Pipe	LF	890	85.00	75,650.00
4	Open Cut & Case for 4" Pipe	LF	440	45.00	19,800.00
5	Creek Crossing for 4" Pipe	LF	110	50.00	5,500.00
6	Tie-In to Exist. 6" W.L.	EA	5	1,400.00	7,000.00
7	Tie-In to Exist. 4" W.L.	EA	10	1,250.00	12,500.00
8	4" Gate Valve	EA	36	550.00	19,800.00
9	Air Release Valve	EA	15	525.00	7,875.00
10	3" Blow-Off Assembly	EA	23	750.00	17,250.00
11	5/8" X 3/4" Meter Service	EA	240	500.00	120,000.00
12	Tandem Setters	EA	40	100.00	4,000.00
13	3/4" Service Tubing	LF	8,600	3.50	30,100.00
14	Bypass Test Meter	EA	6	600.00	3,600.00
15	Booster Pump Station	LS	1	55,000.00	55,000.00
16	Pressure Regulating Valve Station	LS	1	15,000.00	15,000.00
17	50,000 Gallon Elevated Water Storage Tank	LS	1	156,800.00	156,800.00
18	Pavement Replacement	LF	2,000	20.00	40,000.00
Total Construction Cost					\$1,712,325.00

Engineering @ 7.43%	\$127,200.00
Other Engineering	\$12,000.00
Inspection @ 3.89%	\$66,600.00
Legal	\$17,000.00
Administration	\$40,000.00
Interest	\$15,000.00
Land	\$12,000.00
Contingency @ 10%	\$171,200.00
 Total Project Cost (Rounded)	 \$2,173,300.00

Project Funding

KY Tobacco Development Fund Grant	\$750,000.00
Community Development Block Grant	\$971,600.00
Tap Fees/Local	\$101,700.00
Rural Development Loan	\$350,000.00
Total Funding	\$2,173,300.00

IX. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

- A. A majority of the residents in the proposed project area do not have an acceptable domestic water source. Also a health hazard exists due to the contamination of many of the sources currently being used.
- B. The extension of the South Anderson Water District water distribution system into the area is the only viable means of providing them with an acceptable water source.
- C. Significant grant funds will be required for construction in order to keep the rate schedule at the same tolerable level.
- D. The financial feasibility indicates that the South Anderson Water District can serve the proposed project area on the existing rates without seriously jeopardizing the financial integrity of the operations with the \$350,00.00 loan. The existing rates are sufficient to cover operating expenses, debt service, debt service coverage, bond resolution depreciation reserve funding and provide some net unobligated monies. The revenues are not sufficient to cover the full amount of depreciation allowed in the rate base. The grant is necessary to allow the District to operate comfortably.

Recommendations

The project, as presented herein, is feasible with the assumed levels of grants/loan and the existing rates. This will enable the District to accumulate a reasonable amount of monies, which could be used to facilitate additional extensions and/or defray unforeseen expenses. An application should be made to Rural Development for loan funds to construct the water system improvements proposed herein.

Project Funding:

Community Development Block Grant	\$ 971,600.00
Rural Development Loan	350,000.00
Tap Fees	101,700.00
Ky. Tobacco Development Fund Grant	<u>750,000.00</u>
Total	\$2,173,300.00

SUMMARY ADDENDUM
to
PRELIMINARY ENGINEERING REPORT

DATED FEBRUARY 2004

for

SOUTH ANDERSON WATER DISTRICT
(NAME OF WATER FACILITY PROJECT)

APPLICANT CONTACT PERSON ALTON WARFORD, MANAGER

APPLICANT PHONE NUMBER (502) 839-6919

In order to avoid unnecessary delays in application processing, the applicant and its consulting engineer should prepare a summary of the preliminary engineering report in accordance with this Guide. Feasibility reviews and grant determinations may be processed more accurately and more rapidly if the Summary Addendum is submitted simultaneously with the preliminary engineering report, or as soon thereafter as possible.

I. GENERAL

- A. Area to be served: In addition to this summary, the applicant/engineer should submit a project map of the service area showing the following:
1. Existing Facilities - Location and Size.
 2. Proposed Facilities - Location and Size.
 3. New User Location - Also attach a list of new users, by road.
 4. Breakdown of project cost for each branch line.

II. FACILITY CHARACTERISTICS OF EXISTING WATER SYSTEM

- A. Water Source: Describe adequacy of source (quality and quantity). Include an explanation of raw water source, raw water intake structure, treatment plant capacity, and current level of production (WTP). Also describe the adequacy of Water Purchase Contract if applicable.

South Anderson Water District (SAWD) purchases all water for resale. SAWD
currently has contracts with the City of Lawrenceburg for up to 11.5 million
gallons per month and one with the Frankfort Plant Board for up to
3.1 million gallons per month. Negotiations are ongoing with the City of
Lawrenceburg for an additional 4.5 million gallons per month. Both sources
adequate treatment capacity and have expressed a desire to sell more water
SAWD.

If the applicant purchases water:

Seller(s): City of Lawrenceburg; Frankfort Plant Board

Price/1,000 gallons: L'burg \$1.17 current , \$2.08 proposed ; FPB \$1.418

Present Estimated Market Value of Existing System: \$4,500,000.00

- B. Water Storage:

Type: Ground Storage Tank 0 Elevated Tank 0

Standpipe 5 Other None

Number of Storage Structures 5

Total Storage Volume Capacity 615,000

Date Storage Tank(s) Constructed 1-1999, 1-1994, 2-1988, 1- 1976

- C. Water Distribution System:

Pipe Material PVC, PE, D.I.

Lineal Feet of Pipe: 3" Diameter 38,500 4" 400,000

6" 307,000 8" 63,000 10" 12"

Date(s) Water Lines Constructed Major extensions 1976, 1983, 1988, 1994 & 2001

Number and Capacity of Pump Station(s) 2 @ 100 gpm, 1@ 200 gpm ,

1@ 220 gpm and 1@ 420 gpm

V. NUMBER OF EXISTING USERS (As of December, 1997)

A. Water Users:

Residential Size Meters (In Town)*	0
Residential Size Meters/Farmers (Out of Town)*	2080
Larger Users (Larger than 5/8" Meter (In Town))	0
Larger Users (Larger than 5/8" Meter (Out of Town))	25
Total	2,105
Number of Total Potential Users Living in the Service Area	approx. 2,288

*NOTE: Residential/Farmers Users: Classify by type of user regardless of quantity of water used. This classification should include those meters serving individual rural residence size meters and farmers.

VI. CURRENT CONNECTION FEES FOR EACH SIZE METER CONNECTION

METER SIZE	CONNECTION FEE	MINIMUM WATER USAGE FOR EACH SIZE METER
5/8" x 3/4"	\$850.00	2,000 gallons
1-Inch	\$ Cost	2,000 gallons
1-1½" Inch	\$ Cost	2,000 gallons
2-Inch	\$ Cost	2,000 gallons
3-Inch	\$ Cost	2,000 gallons
4-Inch	\$ Cost	2,000 gallons
5-Inch	\$ Cost	2,000 gallons
6-Inch	\$ Cost	2,000 gallons

VII. WATER RATES - EXISTING RATE SCHEDULE

Date this rate went into effect: 05/03/01

Meter Size	<u>All</u>	:		
First	<u>2,000</u>	Gallons @	<u>\$12.50</u>	minimum
Next	<u>1,000</u>	Gallons @	<u>\$6.10</u>	per 1,000 gallons
Next	<u>2,000</u>	Gallons @	<u>\$5.15</u>	per 1,000 gallons
Next	<u>2,000</u>	Gallons @	<u>\$4.25</u>	per 1,000 gallons
Next	<u>3,000</u>	Gallons @	<u>\$3.30</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
All Over	<u>10,000</u>	Gallons @	<u>\$3.00</u>	per 1,000 gallons

Bulk Loading Station @ \$3.80 per 1,000 gallons

Meter Size		:		
First		Gallons @	<u>\$</u>	minimum
Next		Gallons @	<u>\$</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
All Over		Gallons @	<u>\$</u>	per 1,000 gallons

Meter Size		:		
First		Gallons @	<u>\$</u>	minimum
Next		Gallons @	<u>\$</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
Next		Gallons @	<u>\$</u>	per 1,000 gallons
All Over		Gallons @	<u>\$</u>	per 1,000 gallons

FORECAST OF WATER USAGE / INCOME - EXISTING USERS ONLY



Meter Size*	Monthly Water Usage	Average	Average Rate	Residential			Non-Residential		
				No. of Users	Usage (1000 gal)	Income (\$1,000)	No. of Users	Usage (1000 gal)	Income (\$1,000)
	0 - 2,000 Gallons	1,000	12.50	5,575	5,575.00	69,687.50	-	-	-
	2,000 - 3,000 Gallons	2,500	15.55	3,712	9,280.00	57,721.60	-	-	-
	3,000 - 4,000 Gallons	3,500	21.22	3,951	13,828.50	83,840.22	-	-	-
	4,000 - 5,000 Gallons	4,500	26.37	3,002	13,509.00	79,162.74	-	-	-
	5,000 - 6,000 Gallons	5,500	31.02	2,216	12,188.00	68,740.32	-	-	-
	6,000 - 7,000 Gallons	6,500	35.27	1,564	10,166.00	55,162.28	-	-	-
	7,000 - 8,000 Gallons	7,500	39.05	1,068	8,010.00	41,705.40	-	-	-
	8,000 - 9,000 Gallons	8,500	42.35	613	5,210.50	25,960.55	-	-	-
	9,000 - 10,000 Gallons	9,500	45.65	426	4,047.00	19,446.90	-	-	-
5/8 x 3/4	10,000 - 11,000 Gallons	10,500	48.80	275	2,887.50	13,420.00	-	-	-
Inch	11,000 - 12,000 Gallons	11,500	51.80	222	2,553.00	11,499.60	-	-	-
	12,000 - 13,000 Gallons	12,500	54.80	142	1,775.00	7,781.60	-	-	-
	13,000 - 14,000 Gallons	13,500	57.80	109	1,471.50	6,300.20	-	-	-
	14,000 - 15,000 Gallons	14,500	60.80	90	1,305.00	5,472.00	-	-	-
	15,000 - 16,000 Gallons	15,500	63.80	70	1,085.00	4,466.00	-	-	-
	16,000 - 17,000 Gallons	16,500	66.80	51	841.50	3,406.80	-	-	-
	17,000 - 18,000 Gallons	17,500	69.80	36	630.00	2,512.80	-	-	-
	18,000 - 19,000 Gallons	18,500	72.80	30	555.00	2,184.00	-	-	-
	19,000 - 20,000 Gallons	19,500	75.80	30	585.00	2,274.00	-	-	-
	20,000 - 30,000 Gallons	25,000	92.30	163	4,075.00	15,044.90	-	-	-
	30,000 - 50,000 Gallons	40,000	137.30	79	3,160.00	10,846.70	-	-	-
	>50,000 Gallons	70,000	275.30	104	7,280.00	28,631.20	-	-	-
		Subtotal		23,528	110,017.50	\$ 615,267.31	-	-	\$ -
		Average Monthly Bill	\$ 26.15						
		Average Monthly Usage			4,676 gallons				

Note: Approximately 4,000,000 gallons of water were also sold through a rural bulk load out station at \$3.80 per 1,000 gallons for a total income of approximately \$15,200.00.

Total Water Purchased	142,093,900
Total Water Sold	114,017,500

IX. FACILITY CHARACTERISTICS OF PROPOSED WATER SYSTEM

- A. Water Source: Describe adequacy of source (quality and quantity). Include an explanation of raw water source, raw water intake structure, treatment plant capacity, and current level of production (WTP). Also describe the adequacy of Water Purchase Contract if applicable.

SAWD purchases all water from either the city of Lawrenceburg or the Frankfort Plant Board. With the completion of the new City of Lawrenceburg WTP both suppliers will be at less than 50% capacity on a normal day.

- B. Water Storage:

Type: Ground Storage Tank - Elevated Tank 1
 Standpipe - Other None

Number of Storage Structures 1

Total Storage Volume Capacity 50,000

Date Storage Tank(s) Constructed -

- C. Water Distribution System:

Pipe Material	PVC & D.I.			
Lineal Feet of Pipe:	3" Diameter	4"	198,000	
	6"	8"	10"	12"
Date(s) Water Lines Constructed	2004			
Number and Capacity of Pump Station(s)	1 @ 50 gpm			

X. LAND AND RIGHTS - PROPOSED WATER SYSTEM(S)

Number of Treatment Plant Sites	<u>0</u>
Number of Pump Sites	<u>1</u>
Number of Other Sites	<u>1</u>
Total Acreage	<u>0.24 Acres</u>
Purchase Price	<u>\$ 12,000.00</u>

XI. NUMBER OF NEW USERS

A. Water Users:

Residential Size Meters (In Town)*	0
Residential Size Meters/Farmers (Out of Town)*	240
Larger Users (Larger than 5/8" Meter (In Town))	0
Larger Users (Larger than 5/8" Meter (Out of Town))	0
Total	240
Number of Total Potential Users Living in the Service Area	approx. 265

*NOTE: Residential/Farmers Users: Classify by type of user regardless of quantity of water used. This classification should include those meters serving individual rural residence size meters and farmers.

XII. PROPOSED CONNECTION FEES FOR EACH SIZE METER CONNECTION

METER SIZE	CONNECTION FEE	MINIMUM WATER USAGE FOR EACH SIZE METER
5/8" x 3/4"	\$850.00	2,000 gallons
1-Inch	\$ Cost	2,000 gallons
1-1½" Inch	\$ Cost	2,000 gallons
2-Inch	\$ Cost	2,000 gallons
3-Inch	\$ Cost	2,000 gallons
4-Inch	\$ Cost	2,000 gallons
5-Inch	\$ Cost	2,000 gallons
6-Inch	\$ Cost	2,000 gallons

XIII. WATER RATES - PROPOSED

A. Proposed Rate Schedule:

First	<u>2,000</u>	Gallons @	<u>\$12.50</u>	minimum
Next	<u>1,000</u>	Gallons @	<u>\$6.10</u>	per 1,000 gallons
Next	<u>2,000</u>	Gallons @	<u>\$5.15</u>	per 1,000 gallons
Next	<u>2,000</u>	Gallons @	<u>\$4.25</u>	per 1,000 gallons
Next	<u>3,000</u>	Gallons @	<u>\$3.30</u>	per 1,000 gallons
Next	<u>-</u>	Gallons @	<u>\$</u>	per 1,000 gallons
All Over	<u>10,000</u>	Gallons @	<u>\$3.00</u>	per 1,000 gallons

IF MORE THAN ONE RATE, USE ADDITIONAL SHEETS.

Bulk Loading Station @ \$3.80/1,000 gallons

FORECAST OF WATER USAGE / INCOME - EXISTING, GROWTH AND PROJECT USERS



Meter Size*	Monthly Water Usage	Average	Average Rate	Residential			Non-Residential		
				No. of Users	Usage (1000 gal)	Income (\$1,000)	No. of Users	Usage (1000 gal)	Income (\$1,000)
	0 - 2,000 Gallons	1,000	12.50	7,258	7,258.00	90,725.00	-	-	-
	2,000 - 3,000 Gallons	2,500	15.55	4,833	12,082.50	75,153.15	-	-	-
	3,000 - 4,000 Gallons	3,500	21.22	5,144	18,004.00	109,155.68	-	-	-
	4,000 - 5,000 Gallons	4,500	26.37	3,908	17,586.00	103,053.96	-	-	-
	5,000 - 6,000 Gallons	5,500	31.02	2,885	15,867.50	89,492.70	-	-	-
	6,000 - 7,000 Gallons	6,500	35.27	2,036	13,234.00	71,809.72	-	-	-
	7,000 - 8,000 Gallons	7,500	39.05	1,390	10,425.00	54,279.50	-	-	-
	8,000 - 9,000 Gallons	8,500	42.35	798	6,783.00	33,795.30	-	-	-
	9,000 - 10,000 Gallons	9,500	45.65	555	5,272.50	25,335.75	-	-	-
5/8 x 3/4	10,000 - 11,000 Gallons	10,500	48.80	358	3,759.00	17,470.40	-	-	-
Inch	11,000 - 12,000 Gallons	11,500	51.80	289	3,323.50	14,970.20	-	-	-
	12,000 - 13,000 Gallons	12,500	54.80	185	2,312.50	10,138.00	-	-	-
	13,000 - 14,000 Gallons	13,500	57.80	142	1,917.00	8,207.60	-	-	-
	14,000 - 15,000 Gallons	14,500	60.80	117	1,696.50	7,113.60	-	-	-
	15,000 - 16,000 Gallons	15,500	63.80	91	1,410.50	5,805.80	-	-	-
	16,000 - 17,000 Gallons	16,500	66.80	66	1,089.00	4,408.80	-	-	-
	17,000 - 18,000 Gallons	17,500	69.80	47	822.50	3,280.60	-	-	-
	18,000 - 19,000 Gallons	18,500	72.80	39	721.50	2,839.20	-	-	-
	19,000 - 20,000 Gallons	19,500	75.80	39	760.50	2,956.20	-	-	-
	20,000 - 30,000 Gallons	25,000	92.30	163	4,075.00	15,044.90	-	-	-
	30,000 - 50,000 Gallons	40,000	137.30	79	3,160.00	10,846.70	-	-	-
	>50,000 Gallons	70,000	275.30	104	7,280.00	28,631.20	-	-	-
		Subtotal		30,526	138,840.00	\$ 784,513.96	-	-	\$ -
		Average Monthly Bill	\$ 25.70						
		Average Monthly Usage			4,548 gallons				gallons

FORECAST OF WATER USAGE / INCOME - NEW (PROJECT) USERS ONLY



Meter Size*	Monthly Water Usage	Average	Average Rate	Residential			Non-Residential		
				No. of Users	Usage (1000 gal)	Income (\$1,000)	No. of Users	Usage (1000 gal)	Income (\$1,000)
	0 - 2,000 Gallons	1,000	12.50	693	693.00	8,662.50	-	-	-
	2,000 - 3,000 Gallons	2,500	15.55	461	1,152.50	7,168.55	-	-	-
	3,000 - 4,000 Gallons	3,500	21.22	491	1,718.50	10,419.02	-	-	-
	4,000 - 5,000 Gallons	4,500	26.37	373	1,678.50	9,836.01	-	-	-
	5,000 - 6,000 Gallons	5,500	31.02	275	1,512.50	8,530.50	-	-	-
	6,000 - 7,000 Gallons	6,500	35.27	194	1,261.00	6,842.38	-	-	-
	7,000 - 8,000 Gallons	7,500	39.05	133	997.50	5,193.65	-	-	-
	8,000 - 9,000 Gallons	8,500	42.35	76	646.00	3,218.60	-	-	-
	9,000 - 10,000 Gallons	9,500	45.65	53	503.50	2,419.45	-	-	-
5/8 x 3/4	10,000 - 11,000 Gallons	10,500	48.80	34	357.00	1,659.20	-	-	-
Inch	11,000 - 12,000 Gallons	11,500	51.80	28	322.00	1,450.40	-	-	-
	12,000 - 13,000 Gallons	12,500	54.80	18	225.00	986.40	-	-	-
	13,000 - 14,000 Gallons	13,500	57.80	14	189.00	809.20	-	-	-
	14,000 - 15,000 Gallons	14,500	60.80	11	159.50	668.80	-	-	-
	15,000 - 16,000 Gallons	15,500	63.80	9	139.50	574.20	-	-	-
	16,000 - 17,000 Gallons	16,500	66.80	6	99.00	400.80	-	-	-
	17,000 - 18,000 Gallons	17,500	69.80	4	70.00	279.20	-	-	-
	18,000 - 19,000 Gallons	18,500	72.80	4	74.00	291.20	-	-	-
	19,000 - 20,000 Gallons	19,500	75.80	3	58.50	227.40	-	-	-
	20,000 - 30,000 Gallons	25,000	92.30	-	-	-	-	-	-
	30,000 - 50,000 Gallons	40,000	137.30	-	-	-	-	-	-
	>50,000 Gallons	70,000	275.30	-	-	-	-	-	-
		Subtotal		2,880	11,856.50	\$ 69,637.46	-	-	\$ -
		Average Monthly Bill	\$ 24.18						
		Average Monthly Usage			4,117 gallons				

XVI. CURRENT OPERATING BUDGET - (As of the last full operating year-2002)

A. Operating Income:

Water Sales	<u>\$623,393.00</u>
Disconnect/Reconnect/Late Charge Fees	<u>17,148.00</u>
Other (Describe)	<u>()</u>
Less Allowances and Deductions	<u>()</u>
Total Operating Income.....	<u>\$640,541.00</u>

B. Operation and Maintenance Expenses:

(Based on Uniform System of Accounts prescribed by National Association of Regulatory Utility Commissioners)

Source of Supply Expense	<u>\$174,609.00</u>
Pumping Expense	<u>12,347.00</u>
Water Treatment Expense	<u>2,094.00</u>
Transmission and Distribution Expense	<u>53,182.00</u>
Customer Accounts Expense	<u>949.00</u>
Administrative and General Expense	<u>190,886.00</u>
Total Operating Expenses.....	<u>\$434,067.00</u>
Net Operating Income.....	<u>\$206,474.00</u>

C. Non-Operating Income:

Interest on Deposits	<u>\$17,926.00</u>
Other (Identify)	<u>0.00</u>
Total Non-Operating Income.....	<u>\$17,926.00</u>

D. Net Income..... \$224,400.00

E. Debt Repayment:

FmHA Interest	<u>\$90,903.00</u>
FmHA Principal	<u>24,000.00</u>
Non-FmHA Interest	<u>44,512.00</u>
Non-FmHA Principal	<u>24,098.00</u>
Total Debt Repayment.....	<u>\$183,513.00</u>

F. Balance Available for Coverage and Depreciation..... \$ 40,887.00

XVII. PROPOSED OPERATING BUDGET - EXISTING & NEW USERS

(1st Full Year of Operation)

Year Ending Dec. 31, 2005

A. Operating Income:

Water Sales	<u>\$784,513.96</u>
Disconnect/Reconnect/Late Charge Fees	<u>15,000.00</u>
Other (Describe)	<u> </u>
Less Allowances and Deductions	<u>()</u>
Total Operating Income.....	<u>\$799,513.96</u>

B. Operation and Maintenance Expenses:

(Based on Uniform System of Accounts prescribed by National Association of Regulatory Utility Commissioners)

Source of Supply Expense	<u>\$200,800.00</u>
Pumping Expense	<u>14,500.00</u>
Water Treatment Expense	<u>1,500.00</u>
Transmission and Distribution Expense	<u>66,600.00</u>
Customer Accounts Expense	<u>50,000.00</u>
Administrative and General Expense	<u>170,000.00</u>
Total Operating Expenses.....	<u>\$503,500.00</u>
Net Operating Income.....	<u>\$296,013.96</u>

C. Non-Operating Income:

Interest on Deposits	<u>\$10,000.00</u>
Other (Identify)	<u> </u>
Total Non-Operating Income.....	<u> </u>

D. Net Income..... \$306,013.96

E. Debt Repayment:

RD Interest	<u>\$112,760.00</u>
RD Principal	<u>29,500.00</u>
Non-RD Interest	<u>41,005.00</u>
Non-RD Principal	<u>29,500.00</u>
Total Debt Repayment.....	<u>\$212,765.00</u>

F. Balance Available for Coverage and Depreciation..... \$ 83,248.96

XVIII. PROPOSED OPERATING BUDGET - NEW USERS - EXTENSION ONLY

(1st Full Year of Operation)

Year Ending Dec. 31, 2005

A. Operating Income:

Water Sales	<u>\$69,637.46</u>
Disconnect/Reconnect/Late Charge Fees	<u>1,500.00</u>
Other (Describe)	<u>0.00</u>
Less Allowances and Deductions	<u>()</u>
Total Operating Income.....	<u>\$71,137.460</u>

B. Operation and Maintenance Expenses:

(Based on Uniform System of Accounts prescribed by National Association of Regulatory Utility Commissioners)

Source of Supply Expense	<u>\$15,260.00</u>
Pumping Expense	<u>1,300.00</u>
Water Treatment Expense	<u>240.00</u>
Transmission and Distribution Expense	<u>6,700.00</u>
Customer Accounts Expense	<u>5,000.00</u>
Administrative and General Expense	<u>17,000.00</u>
Total Operating Expenses.....	<u>\$45,500.00</u>
Net Operating Income.....	<u>\$25,637.46</u>

C. Non-Operating Income:

Interest on Deposits	<u>\$1,000.00</u>
Other (Identify)	<u> </u>
Total Non-Operating Income.....	<u>\$1,000.00</u>

D. Net Income..... \$26,637.46

E. Debt Repayment:

RD Interest	<u>\$17,500.00</u>
RD Principal	<u>0.00</u>
Non-RD Interest	<u>0.00</u>
Non-RD Principal	<u>0.00</u>
Total Debt Repayment.....	<u>\$17,500.00</u>

F. Balance Available for Coverage and Depreciation..... \$9,137.46

XIX. ESTIMATED PROJECT COST - WATER

Development	\$1,712,325.00
Land and Rights	12,000.00
Legal	17,000.00
Engineering	1193,800.00
Interest	15,000.00
Contingencies	171,200.00
Initial Operating and Maintenance	0.00
Other, Geotechnical & Site Surveys	52,000.00*
TOTAL	\$2,173,300.00

XX. PROPOSED PROJECT FUNDING

Applicant - User Connection Fees	\$101,700.00
Other Applicant Contribution	0.00
RD Loan	350,000.00
RD Grant	0.00
Other (Specify) CDBG Grant	971,600.00
Other (Specify) KY. Tobacco Development Fund Grant	750,000.00
Other (Specify)	
Other (Specify)	
TOTAL	\$2,173,300.00

*Includes \$32,500.00 for administration and \$7,500.00 for planning in conjunction with the CDBG Grant, which are not eligible for RD Funding.

South Anderson Water District Phase VI Water Line Extensions

Opinion of Probable Cost

February 19, 2004

Item No.	Item	Unit	Quantity	Unit Price	Item Price
1	4" PVC SDR-21 Pipe	LF	177,000	\$5.60	\$991,200.00
2	4" PVC SDR-17 Pipe	LF	21,000	6.25	131,250.00
3	Bore & Case for 4" Pipe	LF	890	85.00	75,650.00
4	Open Cut & Case for 4" Pipe	LF	440	45.00	19,800.00
5	Creek Crossing for 4" Pipe	LF	110	50.00	5,500.00
6	Tie-In to Exist. 6" W.L.	EA	5	1,400.00	7,000.00
7	Tie-In to Exist. 4" W.L.	EA	10	1,250.00	12,500.00
8	4" Gate Valve	EA	36	550.00	19,800.00
9	Air Release Valve	EA	15	525.00	7,875.00
10	3" Blow-Off Assembly	EA	23	750.00	17,250.00
11	5/8" X 3/4" Meter Service	EA	240	500.00	120,000.00
12	Tandem Setters	EA	40	100.00	4,000.00
13	3/4" Service Tubing	LF	8,600	3.50	30,100.00
14	Bypass Test Meter	EA	6	600.00	3,600.00
15	Booster Pump Station	LS	1	55,000.00	55,000.00
16	Pressure Regulating Valve Station	LS	1	15,000.00	15,000.00
17	50,000 Gallon Elevated Water Storage Tank	LS	1	156,800.00	156,800.00
18	Pavement Replacement	LF	2,000	20.00	40,000.00
Total Construction Cost					\$1,712,325.00

Engineering @ 7.43%	\$127,200.00
Other Engineering	\$12,000.00
Inspection @ 3.89%	\$66,600.00
Legal	\$17,000.00
Administration	\$40,000.00
Interest	\$15,000.00
Land	\$12,000.00
Contingency @ 10%	\$171,200.00
Total Project Cost (Rounded)	\$2,173,300.00

Project Funding	
KY Tobacco Development Fund Grant	\$750,000.00
Community Development Block Grant	\$971,600.00
Tap Fees/Local	\$101,700.00
Rural Development Loan	\$350,000.00
Total Funding	\$2,173,300.00

South Anderson Water District
Phase VI Expansion Project

Area	Roads	Potential Users
A.	Ashby, Goodnight, Vaughn/Casey and Burke Roads	34
B.	Aaron Barnett and Clay Burgin Roads	24
C.	Bryant Road	3
D.	Cornish and Rutherford School Roads	14
E.	Dennis Road	11
F.	KY 44 (West of Glensboro), Pleasant Grove Ridge Road (KY 1579), Palmer Road and Van Buren Road	87
G.	Love Ridge and T. Burgin Road	21
H.	Long Road	6
I.	KY 44 (Drydock Road to Anderson City Road)	8
J.	Leathers, Mays, Duncan, CareyMill, Drury, and Searcy School Roads	52

Exhibit B

FINAL ENGINEERING REPORT

FOR

**SOUTH ANDERSON WATER DISTRICT
PHASE VI EXPANSION PROJECT
ANDERSON COUNTY, KENTUCKY**

AUGUST 18, 2005



Kenneth Dale Taylor PE
8-18-05

**FINAL ENGINEERING REPORT
SOUTH ANDERSON WATER DISTRICT
PHASE VI EXPANSION PROJECT**

A Preliminary Engineering Report dated February 2005 describes in detail the scope and need for this project. This Preliminary Engineering Report is included herewith by reference. All elements of the project are basically unchanged except for the revisions to the project budget items resulting from the receipt of construction bids. The available funding is sufficient to cover all anticipated expenses with an adequate contingency fund.

Bids were received for the two (2) contracts which make-up the project on July 19, 2005. Eight (8) bids were received for Contract 10 – Pump and Water Line Extensions and four (4) bids were received for contract 11 - 50,000 Gallon Elevated Water Storage Tank. Salmon Construction, Inc. was the low bidder on contract 10 with a bid of \$1,428,052.22 and Caldwell Tanks, Inc. was the low bidder on contract 11 with a bid of \$223,595.00. Copies of the certified bid tabulations for each contract are included at the end of this report.

The following is an estimated project cost based on the bids received and the funding available.

<u>Budget Item</u>	<u>RD Letter of Conditions</u>	<u>Revised</u>
Development	\$1,712,300.00	\$1,651,647.22
Land and Rights	12,000.00	12,000.00
Legal and Administrative	69,000.00	69,000.00
Engineering	193,800.00	207,000.00
Interest	15,000.00	15,000.00
Contingencies	<u>171,200.00</u>	<u>218,652.78</u>
TOTAL	\$\$2,173,300.00	\$\$2,173,300.00

The estimated cost for engineering given above has been adjusted to reflect the construction bids received and the other engineering costs incurred.

Since the Preliminary Engineering Report was completed based on calendar year 2002, the District has undergone some significant changes. Both the 2003 and 2004 audits showed the District operated with significant losses during those years (see attached page 4 from the 2004 audit). Due to these losses the District requested Carryn Lee a financial analyst with the Kentucky Rural Water Association perform a Cost of Service/Billing Analysis based on calendar year 2004 and develop a proposed rate schedule that would cover projected future losses. The results of this analysis are attached. The District's Board of Commissioners have reviewed the analysis and decided to implement an increase of approximately half of what was proposed in the analysis (see attached Notice of Adjustment of Water Rates). As shown in the attached projected 2006 Operating

Budget, the District's proposed rates are sufficient to insure the long term financial integrity of the District.

CONCLUSIONS AND RECOMMENDATIONS

1. The bid amounts for this project, Contract 10 and 11, are in the acceptable range for the types of work involved. The contractors that submitted the low bids are experienced and acceptable. Therefore, it is recommended that the Contracts be awarded to the low bidders, Salmon Construction, Inc. and Caldwell Tanks, Inc.
2. Adequate funding is available, based on the budgeted RD loan, HUD-CDBG grant, Kentucky Tobacco Development Fund Grant and tap fees received, to complete the project.
3. Upon completion of the project, the District will have an adequate customer base to cover operating expenses, debt service, debt service coverage, bond resolution depreciation reserve funding and provide some net unobligated monies at the rates the District intends to implement.
4. The District should proceed with application to the Public Service Commission for authority to construct the proposed facilities with the implementation of the proposed rates.

Attachment 1

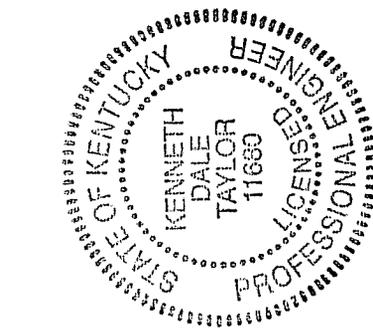
Bid Tabs

BID TABULATIONS
 Contract 10 - Pump and Water Line Extensions
 South Anderson Water District
 July 19, 2005 until 1:30 p.m. (local time)

KENVIRONS, INC.
 452 VERSAILLES ROAD
 FRANKFORT, KENTUCKY 40601
 TEL (502) 695-4357
 FAX (502) 695-4363

ITEM NO.	ITEM DESCRIPTION	UNIT	QUANTITY	Salmon Construction, Inc.		G & W Construction Company, Inc.		Smith Constructors, Inc.		B.P. Pipeline, LLC		Kenney, Inc.		D.F. Bailey, Inc.		M & M Electric, Inc.		Laurel Construction Company, Inc.	
				UNIT COST	TOTAL COST	UNIT COST	TOTAL COST	UNIT COST	TOTAL COST	UNIT COST	TOTAL COST	UNIT COST	TOTAL COST	UNIT COST	TOTAL COST	UNIT COST	TOTAL COST	UNIT COST	TOTAL COST
1	4" PVC SDR-21 Pipe	LF	160,480	\$4.97	\$797,585.60	\$4.54	\$728,579.20	\$4.57	\$733,393.60	\$5.00	\$802,400.00	\$5.69	\$913,131.20	\$5.92	\$950,041.60	\$7.50	\$1,203,600.00	\$8.00	\$1,283,840.00
2	4" PVC SDR-17 Pipe	LF	31,240	5.29	165,259.60	4.83	150,889.20	4.85	151,514.00	6.00	187,440.00	6.01	187,752.40	6.21	194,000.40	8.00	249,920.00	8.50	265,540.00
3	3" PVC SDR-21 Pipe	LF	3,460	4.44	15,365.40	4.11	14,270.60	4.28	14,808.80	4.80	16,608.00	5.18	17,922.80	5.35	18,511.00	8.00	27,680.00	7.80	26,988.00
4	Bore & Case for 3" & 4" Pipe	LF	1,190	80.00	95,200.00	110.00	130,900.00	83.38	99,400.20	80.00	95,200.00	105.45	124,485.50	93.47	111,229.30	110.00	130,900.00	70.00	83,300.00
5	Open Cut & Case for 4" Pipe	LF	390	20.00	7,800.00	45.00	17,550.00	21.63	8,435.70	25.00	9,750.00	55.50	21,645.00	54.73	21,344.70	40.00	15,600.00	30.00	11,700.00
6	Creek Crossing for 4" Pipe	LF	20	80.00	1,600.00	60.00	1,520.00	96.39	1,927.80	35.00	700.00	111.00	2,220.00	76.28	1,525.60	60.00	1,200.00	30.00	1,000.00
7	Hammond Creek 4" Directional Bore	LS	1	9,273.60	9,273.60	19,200.00	19,200.00	20,425.27	20,425.27	26,000.00	26,000.00	23,976.00	23,976.00	29,304.91	29,304.91	15,000.00	15,000.00	60,000.00	60,000.00
8	Indian Creek 4" Directional Bore	LS	1	9,273.60	9,273.60	19,200.00	19,200.00	20,425.27	20,425.27	30,000.00	30,000.00	23,976.00	23,976.00	29,304.91	29,304.91	15,000.00	15,000.00	2,000.00	2,000.00
9	6" x 4" Wet Tap	EA	4	1,000.00	4,000.00	2,141.70	8,566.80	1,157.60	4,630.40	1,300.00	5,200.00	1,332.00	5,328.00	1,167.88	4,671.52	1,800.00	7,200.00	2,000.00	8,000.00
10	4" x 4" Wet Tap	EA	4	1,000.00	4,000.00	2,131.09	8,524.36	1,146.42	4,585.68	1,000.00	4,000.00	1,110.00	4,440.00	1,067.40	4,269.60	1,500.00	6,000.00	2,000.00	8,000.00
11	4" Gate Valve	EA	57	460.00	26,220.00	437.75	24,951.75	603.66	34,408.62	430.00	24,510.00	388.50	22,144.50	431.02	24,568.14	450.00	25,650.00	400.00	22,800.00
12	3" Gate Valve	EA	3	350.00	1,050.00	484.68	1,454.04	682.99	2,048.97	321.00	963.00	388.50	1,165.50	393.01	1,179.03	460.00	1,380.00	350.00	1,050.00
13	Air Release Valve	EA	3	280.00	840.00	484.68	1,454.04	682.99	2,048.97	429.00	1,287.00	388.50	1,165.50	315.31	945.93	750.00	2,250.00	250.00	750.00
14	3" Blow-Off Assembly	EA	18	1,000.00	18,000.00	678.18	12,207.24	916.39	16,495.02	800.00	14,400.00	888.00	15,984.00	1,049.79	18,896.22	1,000.00	18,000.00	600.00	10,800.00
15	4" Blow-Off Assembly	EA	17	1,000.00	17,000.00	689.09	11,714.53	823.16	13,993.72	1,200.00	20,400.00	888.00	15,096.00	1,124.31	19,113.27	1,200.00	20,400.00	700.00	11,900.00
16	5/8" x 3/4" Meter Service	EA	245	350.00	85,750.00	493.78	106,276.10	619.18	151,699.10	550.00	134,750.00	610.50	149,572.50	625.51	153,249.95	400.00	98,000.00	400.00	98,000.00
17	Tandem Setters	EA	40	400.00	16,000.00	490.04	19,601.60	675.36	27,014.40	600.00	24,000.00	721.50	28,860.00	697.30	27,893.00	150.00	6,000.00	400.00	16,000.00
18	3/4" Service Tubing	LF	9,800	3.00	29,400.00	5.19	50,862.00	3.30	32,340.00	4.00	39,200.00	5.55	54,390.00	4.71	46,158.00	10.00	98,000.00	6.00	58,800.00
19	Leak Detection Meter	EA	4	800.00	3,200.00	922.60	3,690.40	807.10	3,228.40	490.00	1,960.00	1,221.00	4,884.00	502.43	2,009.72	450.00	1,800.00	400.00	1,600.00
20	Booster Pump Station	LS	1	78,250.00	78,250.00	58,800.00	58,800.00	98,304.42	98,304.42	50,000.00	50,000.00	78,144.00	78,144.00	58,889.20	62,000.00	62,000.00	60,000.00	60,000.00	
21	Pressure Regulating Valve Station	LS	1	4,571.42	4,571.42	10,300.00	10,300.00	8,300.00	8,300.00	10,000.00	10,000.00	13,875.00	13,875.00	6,811.15	10,000.00	10,000.00	15,000.00	20.00	40,000.00
22	Pavement Replacement	LF	2,000	16,000.00	32,000.00	20.00	40,000.00	39.68	79,360.00	10.00	30,000.00	11.10	22,200.00	45.73	91,460.00	10.00	20,000.00	20.00	40,000.00
23	Willow Creek 4" Directional Bore #1	LS	1	9,273.60	9,273.60	12,000.00	12,000.00	40,559.00	40,559.00	35,000.00	35,000.00	23,976.00	23,976.00	29,304.91	29,304.91	40,000.00	40,000.00	35,000.00	35,000.00
24	Willow Creek 4" Directional Bore #1	LS	1	6,182.40	6,182.40	6,182.40	6,182.40	13,768.55	13,768.55	35,000.00	35,000.00	23,976.00	23,976.00	29,304.91	29,304.91	30,000.00	30,000.00	15,000.00	15,000.00
25	Chain Link Fence (Booster Pump Station)	LF	116	60.00	6,960.00	43.10	4,999.60	62.50	7,250.00	50.00	5,800.00	38.30	4,442.80	31.94	3,703.04	15.00	1,740.00	30.00	3,480.00
TOTAL BASE BID					\$1,428,052.22		\$1,464,650.67		\$1,508,412.87		\$1,594,168.00		\$1,786,252.20		\$1,877,691.01		\$3,112,148.00		\$2,170,948.00

* DENOTES AN ARITHMETIC ERROR WAS MADE ON BASE BID. AMOUNT HAS BEEN CORRECTED TO REFLECT UNIT PRICE SUBMITTED ON BASE BID.
 THE ABOVE IS A TRUE AND COMPLETE TABULATION OF BIDS RECEIVED AT 1:30 P.M., LOCAL TIME, TUESDAY, JULY 19, 2005 AT THE SOUTH ANDERSON WATER DISTRICT.



BY: *Kenneth D. Taylor*
 Kenneth D. Taylor, P.E.

BID TABULATIONS
 CONTRACT 11: 50,000 GALLON ELEVATED WATER STORAGE TANK
 PROJECT: SOUTH ANDERSON WATER DISTRICT
 LOCATION: JULY 19, 2005 AT 1:30 PM LOCAL TIME
 BID DATE:

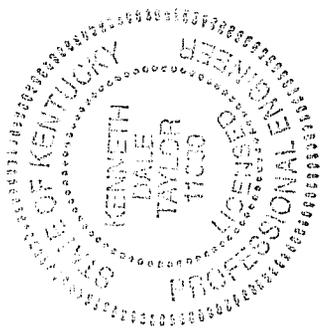
KENVIRONS, INC.
 452 VERSAILLES ROAD
 FRANKFORT, KENTUCKY 40601
 TEL (502) 695-4357
 FAX (502) 695-4363

ITEM NO.	ITEM DESCRIPTION	UNIT	QUANTITY	Caldwell Tanks, Inc.		Laurel Construction Company		Pheonix Fabricators & Erectors		Pittsburg Tank and Tower	
				UNIT COST	COST	UNIT COST	COST	UNIT COST	COST	UNIT COST	COST
1	50,000 Gallon Elevated Water Storage Tank	LS	1	\$209,491.00	\$209,491.00	\$210,000.00	\$210,000.00	\$231,984.00	\$231,984.00	\$257,270.00	\$257,270.00
2	Access Road	LS	1	1,000.00	1,000.00	1,000.00	1,000.00	1,500.00	1,500.00	1,500.00	1,500.00
3	Fence	LF	176	29.00	5,104.00	30.00	5,280.00	29.00	5,104.00	30.00	5,280.00
4	Yard Piping	LS	1	6,000.00	6,000.00	15,000.00	15,000.00	8,000.00	8,000.00	8,000.00	8,000.00
5	Fire Hydrant	LS	1	2,000.00	2,000.00	1,500.00	1,500.00	2,400.00	2,400.00	2,400.00	2,400.00
TOTAL BASE BID					\$223,595.00		\$232,780.00		\$248,988.00		\$274,450.00

THE ABOVE IS A TRUE AND COMPLETE TABULATION OF BIDS RECEIVED AT 1:30P.M., LOCAL TIME, TUESDAY, JULY 19, 2005 AT THE SOUTH ANDERSON WATER DISTRICT, LAWRENCEBURG, KY.

BY: Ken Taylor PE
 Ken Taylor, P.E.

8/1/05
 Date



Attachment 2

Page 4 of 2004 Audit

**SOUTH ANDERSON WATER DISTRICT
STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,**

	2004	2003
OPERATING INCOME:	\$779,236	\$678,132
OPERATING EXPENSE:		
Cost of Water	\$254,423	\$185,426
Salaries & Wages - Employees	162,297	135,410
Salaries & Wages - Commissioners	10,800	10,800
Payroll Taxes	13,196	12,449
Employee Benefits	31,783	27,749
Purchased Power	17,854	16,192
Chemicals	1,641	1,541
Materials & Supplies	46,352	43,312
Contractual Services	38,654	21,634
Rent	11,000	6,000
Transportation	11,146	10,543
Insurance	13,364	8,974
PSC Assessment	1,170	1,168
Advertising	1,414	1,911
Bad Debt	2,572	2,279
Miscellaneous	3,471	2,106
Depreciation & Amortization	143,260	143,500
Total Operating Expense	\$764,397	\$630,994
OPERATING INCOME BEFORE FIXED CHARGES	\$14,839	\$47,138
FIXED EXPENSES		
Interest on Long-Term Debt & Consumer Deposits	\$135,339	\$140,469
NET OPERATING PROFIT (LOSS)	(\$120,500)	(\$93,331)
NON-OPERATING INCOME:		
Interest Income	\$7,231	\$13,755
NET PROFIT (LOSS) FOR CALENDAR YEAR	(\$113,269)	(\$79,576)

The accompanying notes are an integral part of these statements.

Attachment 3

Cost of Service/Billing Analysis

SOUTH ANDERSON WATER DISTRICT

2004 BILLING ANALYSIS

RECOMMENDED RATES

	Bills	Gallons	2,000	1,000	2,000	2,000	2,000	3,000	10,000
First 2,000	6,638	6,233,100	6,233,100						
Next 1,000	3,916	10,014,800	7,832,000	2,182,800					
Next 2,000	7,590	30,234,600	15,180,000	7,590,000	7,464,600				
Next 2,000	4,122	24,388,100	8,244,000	4,122,000	8,244,000	3,778,100			
Next 3,000	2,143	17,612,600	4,286,000	2,143,000	4,286,000	4,286,000	2,611,600		
Over 10,000	1,481	32,982,100	2,962,000	1,481,000	2,962,000	2,962,000	4,443,000	18,172,100	
	25,890	121,465,300	44,737,100	17,518,800	22,956,600	11,026,100	7,054,600	18,172,100	

RECOMMENDED RATES

	Bills	Gallons	Current Rates	Revenue	New Rates	Revenue	Percentage Increase
First 2,000	25,890	44,737,100	\$ 14.58	\$ 377,476	\$ 17.53	\$ 453,852	20%
Next 1,000		17,518,800	7.14	125,084	8.49	148,735	19%
Next 2,000		22,956,600	6.19	142,101	7.75	177,914	25%
Next 2,000		11,026,100	5.29	58,328	7.30	80,491	38%
Next 3,000		7,054,600	4.34	30,617	6.40	45,149	47%
Over 10,000		18,172,100	4.04	73,415	5.80	105,398	44%
Total		121,465,300		\$ 807,022		\$ 1,011,538	

SOUTH ANDERSON WATER DISTRICT										
COST OF SERVICE										
	Total	2,000	1,000	2,000	2,000	2,000	3,000	10,000		
Actual Sales	121,465,300	44,737,100	17,518,800	22,956,600	11,026,100	7,054,600	18,172,100			
Percentage		0.3683	0.1442	0.1890	0.0908	0.0581	0.1496			
Wighted for Demand	203,815,080	89,474,200	33,285,720	37,878,390	16,539,150	8,465,520	18,172,100			
Percentage		0.4390	0.1633	0.1858	0.0811	0.0415	0.0892			
Allocation of Costs										
Commodity	\$ 341,579	\$ 125,808	\$ 49,266	\$ 64,557	\$ 31,007	\$ 19,839	\$ 51,103			
Demand	609,517	267,576	99,542	113,277	49,461	25,316	54,344			
Customer	60,435	60435								
Total	\$ 1,011,531	\$ 453,819	\$ 148,808	\$ 177,834	\$ 80,468	\$ 45,155	\$ 105,447			
Bills = 25890										
New Rates		\$ 17.53	\$ 8.49	\$ 7.75	\$ 7.30	\$ 6.40	\$ 5.80			
Current Rates		14.58	7.14	6.19	5.29	4.34	4.04			
Increase		\$ 2.95	\$ 1.35	\$ 1.56	\$ 2.01	\$ 2.06	\$ 1.76			
Percentage		0.20	0.19	0.25	0.38	0.47	0.44			

SOUTH ANDERSON WATER DISTRICT				
ALLOCATION OF EXPENSES				
		Commodity	Demand	Customer
Purchased Water	\$ 325,639	325,639		
Salaries and Wages	117,273		88,750	28523
Pensions and Benefits	22,966		17,380	5586
Purchased Power	14,299	14,299		
Chemicals	1,641	1,641		
Materials and Supplies	22,498		22,498	
Management Fees	14,400		7,200	7,200
Contractual Services - Other	17,010		17,010	
Transportation	11,146		11,146	
Insurance - Gen. Liability	5,618		5,618	
Insurance - Workers Comp.	3,568		2,700	868
Bad Debt	2,572			2572
Subtotal	558,630	341,579	172,302	44,749
Percentage Less Commodity	217,051		0.79	0.21
Administrative and General	131,757		104,593	27,164
Depreciation	141,578		124,589	16,989
Amortization	1,682		1,480	202
Debt - Principal and Interest	195,600		172,128	23,472
.20 Coverage	39,120		34,426	4,694
Total Expenses	\$ 1,068,367	\$ 341,579	\$ 609,517	\$ 117,271
Other Income	56,836			56,836
Required From Rates	\$ 1,011,531	\$ 341,579	\$ 609,517	\$ 60,435

SOUTH ANDERSON WATER DISTRICT
ADJUSTMENTS TO TEST YEAR EXPENSES

In August 2004, South Anderson received a purchased water adjustment of \$122,085. The Increased purchased water expense in the annual report reflects 5 months at the increased rate. An adjustment has been made to reflect 12 months at the increased purchased water costs.

Management fee has been adjusted to reflect 12 months at a rate of \$1,200 per month.

. Building rental has been adjusted to reflect 12 months at a rate of \$1,250 per month.

SOUTH ANDERSON WATER DISTRICT			
INCOME AND EXPENSES			
Operating Revenue			
Water Sales	\$ 729,537	\$ 77,485	\$ 807,022
Bulk Water	10,083		10,083
Other Revenue	12,576		12,576
Miscellaneous Revenue	26,871		26,871
Total Revenue	\$ 779,067	\$ 77,485	\$ 856,552
Operating Expense			
Purchased Water	\$ 254,423	\$ 71,216	\$ 325,639
Salaries and Wages	162,297		162,297
Commissioners - Wages	10,800		10,800
Pensions and Benefits	31,783		31,783
Purchased Power	17,854		17,854
Chemicals	1,641		1,641
Materials and Supplies	46,352		46,352
Contractual Services - Acct.	4,700		4,700
Contractual Services - Legal	10,944		10,944
Management Fees	6,000	8,400	14,400
Contractual Services - Other	17,010		17,010
Building Rental	11,000	4,000	15,000
Transportation	11,146		11,146
Insurance - Gen. Liability	8,427		8,427
Insurance - Workers Comp.	4,937		4,937
Advertising	1,414		1,414
Bad Debt	2,572		2,572
Miscellaneous	3,471		3,471
Depreciation	141,578		141,578
Amortization	1,682		1,682
Debt - Principal and Interest	195,600		195,600
.20 Coverage	39,120		39,120
Total Expenses	\$ 984,751	\$ 83,616	\$ 1,068,367
Total Revenue			856,552
Increase Required			\$ 211,815

SOUTH ANDERSON WATER DISTRICT

2004 BILLING ANALYSIS

CURRENT RATES

	Bills	Gallons	2,000	1,000	2,000	2,000	2,000	3,000	10,000
First 2,000	6,638	6,233,100	6,233,100						
Next 1,000	3,916	10,014,800	7,832,000	2,182,800					
Next 2,000	7,590	30,234,600	15,180,000	7,590,000	7,464,600				
Next 2,000	4,122	24,388,100	8,244,000	4,122,000	8,244,000	3,778,100			
Next 3,000	2,143	17,612,600	4,286,000	2,143,000	4,286,000	4,286,000	2,611,600		
Over 10,000	1,481	32,982,100	2,962,000	1,481,000	2,962,000	2,962,000	4,443,000	18,172,100	
	25,890	121,465,300	44,737,100	17,518,800	22,956,600	11,026,100	7,054,600	18,172,100	

CURRENT REVENUE

	Bills	Gallons	Rate	Revenue
First 2,000	25,890	44,737,100	\$ 14.58	\$ 377,476
Next 1,000		17,518,800	7.14	125,084
Next 2,000		22,956,600	6.19	142,101
Next 2,000		11,026,100	5.29	58,328
Next 3,000		7,054,600	4.34	30,617
Over 10,000		18,172,100	4.04	73,415
Total		121,465,300		\$ 807,022

Attachment 4

Notice of Adjustment of Water Rates

NOTICE OF ADJUSTMENT OF WATER RATES

South Anderson Water District
Anderson County, Kentucky

Notice is hereby given that, pursuant to an application being filed with the Public Service Commission of Kentucky under KRS 278.023 by the South Anderson Water District (the "District"), the District proposes to adjust its monthly water service rates and charges as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>
First 2,000 Gallons	\$14.64 (min.)	\$16.03 (min.)
Next 1,000 Gallons	7.17 per 1,000 gal.	7.85 per 1,000 gal.
Next 2,000 Gallons	6.22 per 1,000 gal.	6.80 per 1,000 gal.
Next 2,000 Gallons	5.32 per 1,000 gal.	5.81 per 1,000 gal.
Next 3,000 Gallons	4.37 per 1,000 gal.	4.77 per 1,000 gal.
All Over 10,000 Gallons	4.07 per 1,000 gal.	4.44 per 1,000 gal.
Bulk Sales	\$3.57 per 1,000 gal.	\$3.57 per 1,000 gal.

By use of federal loan and grant proceeds and local funds, the District plans to construct improvements to and an expansion of its water distribution system, including new water lines, an elevated water storage tank, a booster pump and appurtenant facilities, all at an estimated cost of \$2,173,300.

SOUTH ANDERSON WATER DISTRICT
246 East Court Street
Lawrenceburg, Kentucky 40342

Attachment 5

Projected 2006
Operating Budget
RD Form 442-7

**OPERATING BUDGET
PROJECTED 2006**

Schedule 1

Name		Address			
South Anderson Water District		246 Court Street Lawrenceburg			
Applicant Fiscal Year		County		State (Including ZIP Code)	
From	To	003 Anderson		Kentucky 40342	
	1/1	12/31			
	20	20	20	20	First Full Year
	(1)	(2)	(3)	(4)	(5)
OPERATING INCOME					
1. Water Sales					\$ 954,741
2. Other <u>Connect/Discon. & Int.</u>					15,000
3. _____					
4. _____					
5. Miscellaneous					
6. Less: Allowances and Deductions	()	()	()	()	()
7. Total Operating Income (Add Lines 1 through 6)	\$0.00	\$0.00	\$0.00	\$0.00	\$ 969,741
OPERATING EXPENSES					
8. Purchased Water					\$ 325,639
9. Salaries/Benefits					204,880
10. Other <u>Supplies & Power</u>					65,847
11. Other <u>Cont. Services</u>					47,054
12. <u>Bldg. Rental/Trans.</u>					26,146
13. <u>Office/Insurance</u>					22,505
14. <u>Other Interest</u> <u>Other Debts-P&I</u>					54,800
15. Interest (RD) <u>Ex. RD-P&I</u>					121,483
16. Interest (RD) <u>New RD-P&I</u>					19,313
17. Total Operating Expense (Add lines 8 through 16)	\$0.00	\$0.00	\$0.00	\$0.00	\$ 887,667
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	\$0.00	\$0.00	\$0.00	\$0.00	\$ 82,074
NONOPERATING INCOME					
19. _____					
20. _____					
21. Total Nonoperating Income (Add Lines 19 and 20)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
22. NET INCOME (LOSS) (Add Lines 18 and 21) (Transfer to Line A Schedule 2)	\$0.00	\$0.00	\$0.00	\$0.00	\$ 82,074

Budget and Projected Cash Flow Approved by Governing Body

Attest: George Kinne Secretary 5-15-05 Date
Bob Kincer Appropriate Official _____ Date
 Bob Robert Kincer

PROJECTED CASH FLOW

	20	20	20	20	First Full Year
A. Line 22 from Schedule 1 Income (<i>Loss</i>)	\$0	\$0	\$0	\$0	\$ 82,074
<i>Add</i>					
B. Items in Operations not Requiring Cash:					
1. Depreciation (<i>Line 16, Schedule 1</i>)	\$0	\$0	\$0	\$0	\$0
2. Others: _____					
C. Cash Provided from:					
1. Proceeds from RD loan/grant					
2. Proceeds from others					
3. Increase (<i>Decrease</i>) in Accounts Payable, Accruals and other Current Liabilities					
4. Decrease (<i>Increase</i>) in Accounts Receivable, inventories and Other Current Assets (<i>Exclude Cash</i>)					
5. Other: _____					
6. _____					
D. Total all A, B and C Items	\$0	\$0	\$0	\$0	\$ 82,074
E. <i>Less</i> : Cash Expended for:					
1. All Construction, Equipment and New Capital Items (<i>Loan and grant funds</i>)					
2. Replacement and Additions to Existing Property, Plant and Equipment					42,593
3. Principal Payment RD Loan					
4. Principal Payment Other Loans					
5. Other: _____					
6. Total E 1 through 5	\$0	\$0	\$0	\$0	\$0
<i>Add</i>					
F. Beginning Cash Balances					
G. Ending Cash Balances (<i>Total of D minus E 6 plus F</i>)	\$0	\$0	\$0	\$0	39,481
Item G Cash Balances Composed of:					
Construction Account					
Revenue Account					
Debt Payment Account					
O&M Account					39,481
Reserve Account					
Funded Depreciation Account					
Others: _____					

Total - Agrees with Item G	\$0	\$0	\$0	\$0	\$ 39,481

Exhibit C



United States Department of Agriculture
Rural Development
Kentucky State Office

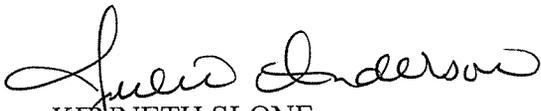
August 8, 2005

SUBJECT: South Anderson Water District
Phase VI Water Expansion Project
Contract Award Concurrence

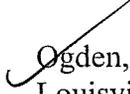
TO: Area Director
Shelbyville, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder for Contract 10, Salmon Construction, Inc., in the amount of \$1,428,052.33 and the low bidder for Contract 11, Caldwell Tanks, Inc., in the amount of \$223,595.00.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.


for KENNETH SLONE
State Director
Rural Development

cc: Kenvirons, Inc.
Frankfort, Kentucky


Ogden, Newell, and Welch
Louisville, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD)

Exhibit D

NOTICE OF ADJUSTMENT OF WATER RATES

South Anderson Water District
Anderson County, Kentucky

Notice is hereby given that, pursuant to an application being filed with the Public Service Commission of Kentucky under KRS 278.023 by the South Anderson Water District (the "District"), the District proposes to adjust its monthly water service rates and charges as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>
First 2,000 Gallons	\$14.64 (min.)	\$16.03 (min.)
Next 1,000 Gallons	7.17 per 1,000 gal.	7.85 per 1,000 gal.
Next 2,000 Gallons	6.22 per 1,000 gal.	6.80 per 1,000 gal.
Next 2,000 Gallons	5.32 per 1,000 gal.	5.81 per 1,000 gal.
Next 3,000 Gallons	4.37 per 1,000 gal.	4.77 per 1,000 gal.
All Over 10,000 Gallons	4.07 per 1,000 gal.	4.44 per 1,000 gal.
Bulk Sales	\$3.57 per 1,000 gal.	\$3.57 per 1,000 gal.

By use of federal loan and grant proceeds and local funds, the District plans to construct improvements to and an expansion of its water distribution system, including new water lines, an elevated water storage tank, a booster pump and appurtenant facilities, all at an estimated cost of \$2,173,300.

SOUTH ANDERSON WATER DISTRICT
246 East Court Street
Lawrenceburg, Kentucky 40342

A F F I D A V I T

Bud Garrison, advertising manager of The Anderson News, a newspaper having the greatest circulation in Lawrenceburg, Kentucky hereby declares that the Notice of Adjustment of Water Rates for the South Anderson Water District ran in the August 24, 2005 edition.



Bud Garrison, Advertising Manager

Subscribed and sworn to before me, a notary public within and for the State of Kentucky and County of Anderson, by Bud Garrison, of The Anderson News, known by me personally, this 23rd day of August, 2005

My commission expires the 5th day of March 2006.



Janie Bowen,
Notary Public, State at Large

SEAL

NOTICE OF ADJUSTMENT OF WATER RATES

**South Anderson Water District
Anderson County, Kentucky**

Notice is hereby given that, pursuant to an application being filed with the Public Service Commission of Kentucky under KRS 278.023 by the South Anderson Water District (the "District"), the District proposes to adjust its monthly water service rates and charges as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>
First 2,000 Gallons	\$14.64 (min.)	\$16.03 (min.)
Next 1,000 Gallons	7.17 per 1,000 gal.	7.85 per 1,000 gal.
Next 2,000 Gallons	6.22 per 1,000 gal.	6.80 per 1,000 gal.
Next 2,000 Gallons	5.32 per 1,000 gal.	5.81 per 1,000 gal.
Next 3,000 Gallons	4.37 per 1,000 gal.	4.77 per 1,000 gal.
All Over 10,000 Gallons	4.07 per 1,000 gal.	4.44 per 1,000 gal.
Bulk Sales	\$3.47 per 1,000 gal.	\$3.57 per 1,000 gal.

By use of federal loan and grant proceeds and local funds, the District plans to construct improvements to and an expansion of its water distribution system, including new water lines, an elevated water storage tank, a booster pump and appurtenant facilities, all at an estimated cost of \$2,173,300.

SOUTH ANDERSON WATER DISTRICT
246 East Court Street
Lawrenceburg, Kentucky 40342

Exhibit E

BOND-AUTHORIZING RESOLUTION

A RESOLUTION OF THE COMMISSION OF SOUTH ANDERSON WATER DISTRICT, ANDERSON COUNTY, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE DISTRICT'S EXISTING MUNICIPAL WATER DISTRIBUTION SYSTEM; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S \$350,000 WATER SYSTEM REVENUE BONDS, SERIES 2005, TO PAY THE COSTS THEREOF (TO THE EXTENT NOT OTHERWISE PROVIDED TO BE PAID); CONFIRMING, RATIFYING AND CONTINUING PRE-EXISTING PROVISIONS PREVIOUSLY ADOPTED BY THE DISTRICT RELATING TO THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE INCOME AND REVENUES OF SAID MUNICIPAL WATER DISTRIBUTION SYSTEM; CONFIRMING, RATIFYING AND CONTINUING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM THE INCOME AND REVENUES OF THE SYSTEM AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED AND OTHER PARITY BONDS OUTSTANDING; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

_____. _____
Adopted _____, 2005

- TABLE OF CONTENTS -

	<u>PAGES</u>
PREAMBLE	1
SECTION 1. AFFIRMATION OF PREAMBLE RECITALS; AUTHORIZATION OF THE PROJECT; DECLARATION OF NECESSITY	3
SECTION 2. PROJECT TO BE MUNICIPALLY OWNED AND OPERATED	3
SECTION 3. BOND ISSUE AUTHORIZED; CERTAIN TERMS AND DETAILS	4
SECTION 4. PROVISIONS RELATING TO SALE OF BOND ISSUE	5
SECTION 5. 2005 BONDS TO BE ISSUED IN FULLY REGISTERED FORM: FULLY REGISTERED BOND FORM	7
SECTION 6. DISPOSITION OF 2005 BOND PROCEEDS; CONSTRUCTION FUND	11
SECTION 7. OPERATION OF SYSTEM; FLOW OF FUNDS; ACCUMULATION OF REVENUES	13
SECTION 8. COVENANTS TO BONDHOLDERS	18
SECTION 9. PARITY BONDS PERMITTED; TERMS	22
SECTION 10. PROVISIONS OF RESOLUTION CONSTITUTE CONTRACT	24
SECTION 11. STATUTORY MORTGAGE LIEN ACKNOWLEDGED	24
SECTION 12. TAX COVENANTS AND REPRESENTATIONS	25
SECTION 13. SEVERABILITY CLAUSE	27
SECTION 14. REPEAL OF INCONSISTENT PROVISIONS	27
SECTION 15. WHEN RESOLUTION EFFECTIVE	27
SIGNATURES	27
CERTIFICATION	28

BOND-AUTHORIZING RESOLUTION

A RESOLUTION OF THE COMMISSION OF SOUTH ANDERSON WATER DISTRICT, ANDERSON COUNTY, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE DISTRICT'S EXISTING MUNICIPAL WATER DISTRIBUTION SYSTEM; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S \$350,000 WATER SYSTEM REVENUE BONDS, SERIES 2005, TO PAY THE COSTS THEREOF (TO THE EXTENT NOT OTHERWISE PROVIDED TO BE PAID); CONFIRMING, RATIFYING AND CONTINUING PRE-EXISTING PROVISIONS PREVIOUSLY ADOPTED BY THE DISTRICT RELATING TO THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE INCOME AND REVENUES OF SAID MUNICIPAL WATER DISTRIBUTION SYSTEM; CONFIRMING, RATIFYING AND CONTINUING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM THE INCOME AND REVENUES OF THE SYSTEM AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED AND OTHER PARITY BONDS OUTSTANDING; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

WHEREAS, pursuant to an approving Order of the Public Service Commission of Kentucky entered on March 14, 1967, and upon petition and hearing, and upon proper public notice according to the provisions of Chapter 74 of the Kentucky Revised Statutes ("KRS"), an Order was duly entered by the County Court of Anderson County, Kentucky, on May 5, 1967, determining necessity for and creating and establishing the South Anderson Water District (the "District"), and the Court then appointed Commissioners of the District, the same constituting and being a public body corporate with all powers and authority as provided in KRS Chapter 74; and the District is at this time a *de jure* water district situated in Anderson County, Kentucky; and

WHEREAS, since 1976 the District has owned and operated its municipal water distribution system (the "System") serving the area of the District, and the District currently has outstanding the following revenue bonds payable from and secured by a pledge of the revenues of the System, on a parity one with the other:

(a) \$95,000 outstanding principal amount of Water System Revenue Bonds, Series of 1975 (the "1975 Bonds"), authorized by Resolution of the Commission of the District adopted on November 6, 1975, as amended by Resolution adopted on April 13, 1999 (collectively the "1975 Resolution");

(b) \$34,000 outstanding principal amount of Water System Revenue Bonds, Series of 1981 (the "1981 Bonds"), authorized by Resolution of the Commission of the District adopted on October 13, 1981, as amended by Resolution adopted on April 13, 1999 (collectively the "1981 Resolution");

(c) \$592,000 outstanding principal amount of Water System Revenue Bonds, Series 1993 (the "1993 Bonds"), authorized by Resolution of the Commission of the District adopted on October 13, 1993, as amended by Resolution adopted on April 13, 1999 (collectively the "1993 Resolution");

(d) \$745,000 outstanding principal amount of Water System Refunding Revenue Bonds, Series 1999A (the "1999 Bonds"), authorized by Resolution of the Commission of the District adopted on April 13, 1999 (the "1999 Resolution"); and

(e) \$1,060,000 outstanding principal amount of Water System Revenue Bonds, Series 2001 (the "2001 Bonds"), authorized by Resolution of the Commission of the District adopted on May 15, 2001 (the "2001 Resolution"); and

WHEREAS, it is provided in the 1975, 1981, 1993, 1999 and 2001 Resolutions (the "Prior Resolutions") that the District may issue additional parity bonds ranking on a basis of parity and equality with the outstanding 1975, 1981, 1993, 1999 and 2001 Bonds (the "Prior Bonds") for the purpose of adding new water distribution system facilities to the System upon a showing of compliance with the parity bond coverage test set forth in the 1999 Resolution, and it has been determined by the Commission of the District that the District may now meet such coverage test so that additional parity bonds, ranking on a parity with the Prior Bonds and styled "Water System Revenue Bonds, Series 2005 (the "2005 Bonds"), may now be issued in the amount of \$350,000 for the purpose of financing a portion of the costs of major improvements and additions to the water facilities heretofore approved by the Commission of the District (the "Project"), all as more fully described in the plans and specifications heretofore prepared on behalf of the District by Kenvirons, Inc., Frankfort, Kentucky, and on file in the office of the District; and

WHEREAS, in proceedings before the Public Service Commission of Kentucky, the District has obtained the right and authority to construct and operate major extensions and additions to the System, and plans and specifications have heretofore been prepared by Kenvirons, Inc., Frankfort, Kentucky, the District's consulting engineers, and approved by the District's Commission and all state and other supervisory authorities having jurisdiction thereof; and it is the opinion of the Commission of the District that it is feasible to undertake the construction and installation of such new facilities at this time; and

WHEREAS, it has been determined upon the basis of public bids for construction duly solicited in the manner required by law, and upon the basis of other costs and estimates, that the aggregate of all costs and expenses in connection with the Project will be \$2,173,300, and to provide a portion of such funds the District has received from USDA an offer to make a loan to

the District in the amount of \$350,000 which, together with a Kentucky Tobacco Development Fund Grant in the amount of \$750,000, a HUD-CDBG Grant in the amount of \$971,600, and a District contribution in the amount of at least \$101,700, will be sufficient to pay the estimated costs and expenses; and

WHEREAS, it is now appropriate for the District to provide for borrowing the sum of \$350,000 through issuance and sale of its Water System Revenue Bonds, Series 2005 (the "2005 Bonds"), according to authority of Kentucky Revised Statutes ("KRS") Chapters 74 and 106 and the provisions of the Prior Resolutions permitting the issuance of parity bonds; and

WHEREAS, the Series 2005 Bonds will be payable as to both principal and interest solely (except as to capitalized interest) from the income and revenues to be derived from the operation of the System and will not constitute an indebtedness of the District within the meaning of debt-limiting provisions of the Constitution of Kentucky;

NOW, THEREFORE, THE COMMISSION OF SOUTH ANDERSON WATER DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1

AFFIRMATION OF PREAMBLE RECITALS;

AUTHORIZATION OF THE PROJECT;

DECLARATION OF NECESSITY

All statements and recitals set forth in the preamble of this Resolution, including the terms defined therein, are hereby affirmed and adopted as a part of this Resolution.

It is hereby further determined and declared to be necessary in the interests of the general welfare of the citizens and inhabitants of the District that the District undertake at this time the construction and installation of major additions and extensions (the "Project") to the District's municipal water distribution system (the "System"), all substantially according to the plans, specifications and designs prepared for the District by Kenvirons, Inc., Frankfort, Kentucky (the "Engineers"), and on file with the District. Immediate undertaking of such construction and installation is hereby authorized.

SECTION 2

PROJECT TO BE MUNICIPALLY
OWNED AND OPERATED

The construction and installation of the Project is undertaken by the District for public purposes and the same shall constitute and be a part of the System, and so long as any of the 2005 Bonds hereinafter authorized, or bonds issued on a parity therewith, shall remain outstanding and unpaid as to principal or interest, the System shall continue to be municipally

owned, controlled, operated and maintained by the District for the security and source of payment of the 2005 Bonds and all other parity bonds outstanding heretofore or hereafter issued. The Project is to be constructed, installed and acquired and the System is to be operated pursuant to the provisions of KRS Chapters 74 and 106, now in full force and effect.

SECTION 3

BOND ISSUE AUTHORIZED;
CERTAIN TERMS AND DETAILS

(A) For the purpose of providing funds to defray the costs of the Project (to the extent not otherwise provided to be paid), including all necessary and proper appurtenances, and expenses incident thereto and incident to the issuance of the 2005 Bonds, there are hereby authorized to be issued the District's Water System Revenue Bonds, Series 2005, in the principal amount of \$350,000 (the "2005 Bonds"), with reservation of right on the part of the District to issue additional bonds in the future, payable from the income and revenues of the System, subject to the conditions and restrictions hereinafter reaffirmed, readopted and set forth. The 2005 Bonds hereby authorized shall be offered at public sale as provided in Section 4 hereof and shall be issuable in the form of a single fully registered bond as provided in Section 5 hereof.

The 2005 Bonds shall be dated as of the date of delivery to the original purchaser thereof; shall mature as to principal in installments on January 1 in each of the years 2008 to 2045, inclusive, as set forth in the schedule appearing below; and shall bear interest from their date until payment of principal, such interest to the respective principal maturity dates to be payable semiannually on January 1 and July 1 of each year, and such interest to be at such rate as may be established by a supplemental Resolution upon the basis of competitive sale of the 2005 Bonds as hereinafter provided. The installments of principal of 2005 Bonds, in fully registered form as aforesaid, shall be as set forth in the following schedule:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2008	\$ 3,500	2021	\$ 6,500	2034	\$ 11,500
2009	4,000	2022	7,000	2035	12,000
2010	4,000	2023	7,000	2036	12,500
2011	4,000	2024	7,500	2037	13,000
2012	4,500	2025	7,500	2038	13,500
2013	4,500	2026	8,000	2039	14,000
2014	5,000	2027	8,500	2040	14,500
2015	5,000	2028	9,000	2041	15,500
2016	5,500	2029	9,000	2042	16,000
2017	5,500	2030	9,500	2043	16,500
2018	5,500	2031	10,000	2044	17,500
2019	6,000	2032	10,500	2045	19,500
2020	6,000	2033	11,000		

The 2005 Bonds shall be issued as a single fully registered 2005 Bond, numbered R-1, maturing in principal installments in annual amounts corresponding to the schedule immediately above, provided, however, that installments of principal of 2005 Bonds maturing on and after January 1, 2016, shall be subject to prepayment at the option of the District prior to maturity in whole or from time to time in part in inverse order of maturities (less than all of a single maturity to be selected by lot) on any interest payment date on and after July 1, 2015, upon terms of par plus accrued interest without any prepayment premium, upon thirty (30) days' prior written notice mailed to the registered holder or holders of the 2005 Bonds; provided, that so long as USDA is the owner of any of the 2005 Bonds, the same may be prepaid in whole or in part at any time at par plus accrued interest, and without notice or prepayment premium. The 2005 Bonds may be prepaid only in increments of \$500.

Both principal of and interest on the 2005 Bonds shall be payable, without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United States of America, to the registered holder at the address shown on the registration books of the District or, so long as USDA is the registered holder, at the office or address as may be designated by USDA from time to time.

If any District officer whose signature appears on any 2005 Bond shall cease to be such officer prior to delivery, such signature shall nevertheless be valid and binding for all purposes, the same as if such officer had continued in office until the time of delivery of such 2005 Bond. The 2005 Bonds, together with the Prior Bonds, and the interest thereon, and any bonds which may hereafter be issued on a basis of parity therewith subject to the conditions and restrictions hereinafter set forth, shall be payable only out of the Water System Bond and Interest Sinking Fund created by the 1975 Resolution and continued by the remaining Prior Resolutions, and shall be a valid claim of the holder thereof only against said Fund and the fixed portion or amount of the revenues of the System which the District has pledged to said Fund, subject to the terms hereof.

The District finds and declares that the 2005 Bonds shall rank on a basis of parity and equality as to security and source of payment with the District's previously issued and outstanding Prior Bonds inasmuch as the District is in compliance with all covenants and undertakings in connection with the Prior Bonds.

SECTION 4

PROVISIONS RELATING TO SALE OF BOND ISSUE

The 2005 Bonds authorized by this Resolution shall be publicly offered for sale according to a Notice of Sale of Bonds conforming to the requirements of KRS Chapter 424 (and particularly KRS 424.140(3) and KRS 424.360), which shall be published one time, not less than

seven (7) days nor more than twenty-one (21) days prior to the date therein specified (by and at the discretion of the Chairman of the Commission of the District) for the opening and consideration of purchase bids, in each of the following: (a) the legal newspaper published in Anderson County, Kentucky, which is qualified under KRS 424.120 to publish advertisements for the District; and (b) The Courier-Journal, Louisville, Kentucky, a legal newspaper having statewide circulation.

Said Notice shall state the name and amount of 2005 Bonds to be sold, the time of the sale and other details concerning the 2005 Bonds and the sale, and shall inform prospective bidders that a copy of the Official Notice of Bond Sale, setting out the maturities, security of the 2005 Bonds, provisions as to redemption prior to maturity and related information, may be obtained from the District. Such Official Notice shall contain, *inter alia*, substantially the following bidding requirements:

(A) Bidders shall be limited to institutions or persons having knowledge and experience in financial and business matters who are capable of evaluating the merits and risks of the 2005 Bonds and who are not purchasing for more than one account and do not intend to redistribute the 2005 Bonds. The District will make available to any such qualified bidder, upon written request, any financial or other material information regarding the District and the System in the District's possession. Bidders are required to bid a cash price of not less than par value for the 2005 Bonds.

(B) Interest rate must be in a multiple of 1/8 or 1/10 of one percent.

(C) Bids will be considered only for the entire 2005 Bond issue.

(D) Bidders (except USDA) are required to deposit a good faith check by cashier's check or certified check in the minimum amount of 2% of the face amount of the 2005 Bonds for which the bid is submitted, which good faith deposit may be applied as partial payment for such 2005 Bonds, or as liquidated damage in the event that such bidder, if successful, fails to comply with the terms of his bid.

(E) Preference in award will be given to the bid resulting in the lowest net interest cost to the District.

(F) The lowest net interest cost will be determined by deducting the total amount of any premium bid from the aggregate amount of interest upon the 2005 Bonds bid for, computed from the first day of the month following the date of sale of the 2005 Bonds (even though the 2005 Bonds will bear interest only from the date of delivery) to the final maturity specified in each bid.

(G) The District expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the 2005 Bonds at the office of the District within 45 days after notice is given of the award. If the 2005 Bonds are not ready for delivery and payment within 45

days from the aforesaid date of sale, the successful bidder shall be relieved of any liability to accept delivery of the 2005 Bonds, except that 2005 Bonds purchased by any agency of the federal government will be delivered to it at a place and time designated by such agency in accordance with its established practices and procedures.

(H) The District reserves the right, in its discretion, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids.

(I) The District will furnish the 2005 Bonds, together with evidence of approval of the 2005 Bond issue by the Public Service Commission of Kentucky pursuant to the requirements of KRS Chapter 278, and customary closing documents, including a no-litigation certificate.

(J) The successful bidder will receive the approving legal opinion of Ogden Newell & Welch PLLC, Bond Counsel, Louisville, Kentucky, as to the legality of and tax-exempt status of interest on the 2005 Bonds, without additional cost to the successful bidder.

In the event that there is no bid, or that all bids are rejected, the District may re-advertise the sale pursuant to this Resolution.

Bond Counsel having submitted to the Commission of the District forms of the Notice of Sale of Bonds and the Official Notice of Bond Sale, together with an Official Bid Form for use by all bidders except USDA, said documents are hereby approved and authorized for use in connection with the aforesaid sale of the 2005 Bonds.

SECTION 5

2005 BONDS TO BE ISSUED IN FULLY REGISTERED FORM;
FULLY REGISTERED BOND FORM

Upon the sale of the 2005 Bonds, the District shall issue a single fully registered 2005 Bond numbered R-1 (hereinafter referred to as the "Fully Registered Bond"). The Fully Registered Bond shall be in the aggregate principal amount of the 2005 Bond issue, maturing as to principal in installments as set out in Section 3 hereof. The Fully Registered Bond shall be of type composition, on paper of sufficient weight and strength to prevent deterioration until the last day of maturity of any installment of principal as stated therein, and shall conform in size to standard practice. The Fully Registered Bond shall, upon execution on behalf of the District (which execution shall be by manual signatures of the Chairman and Secretary of the Commission, and actual impression of the corporate seal), constitute the Bond issue herein authorized and referred to, and shall be non-negotiable, without interest coupons, registered as to principal and interest, and payable as directed by the payee, and be in substantially the form hereinafter set forth.

The District hereby directs that books for the registration and for the transfer of the Fully Registered Bond shall be kept by the Secretary, who is hereby appointed as Bond Registrar

in connection with such Bond. The Fully Registered Bond shall be transferable only upon the Bond Registrar's books at the request of the registered holder thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered holder or his duly authorized attorney. Upon such transfer of the Fully Registered Bond, the Bond Registrar shall complete (with the name of the transferee), date and execute the registration schedule appearing on the Fully Registered Bond and deliver the Fully Registered Bond to such transferee. The person in whose name the Fully Registered Bond shall be properly registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of either principal thereof or interest thereon shall be made only to or upon the order of the registered holder thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon the Fully Registered Bond to the extent of the sum or sums so paid. The face amount of the Fully Registered Bond, portions of which mature on different dates, will be reduced upon the payment of each maturity, and the Secretary shall keep appropriate records of all payments (both principal and interest) with respect to the Fully Registered Bond.

The Fully Registered Bond shall be in substantially the following form (with appropriate insertions and modifications):

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
SOUTH ANDERSON WATER DISTRICT
WATER SYSTEM REVENUE BOND, SERIES 2005

No. R-1 \$350,000

KNOW ALL MEN BY THESE PRESENTS:

That South Anderson Water District (the "District"), acting by and through its Commission, a public body corporate created and existing pursuant to Chapter 74 of the Kentucky Revised Statutes and situated in Anderson County, Kentucky, for value received, hereby promises to pay to the registered holder hereof, as hereinafter provided, solely from the special fund hereinafter identified, the sum of THREE HUNDRED FIFTY THOUSAND DOLLARS (\$350,000) on the first day of January in years and installments as follows:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
-------------	------------------	-------------	------------------	-------------	------------------

(Here the printer will print the principal maturities for the Series 2005 Bonds)

without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the

United States of America, and in like manner, solely from said special fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, without deduction for exchange or collection charges and in like coin or currency, at the rate of (_____%) per annum, semiannually on the first days of January and July in each year hereafter until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable to the registered holder hereof at the address shown on the registration books of the District or, so long as the United States of America, Department of Agriculture, is the registered holder of this Bond, at the office or address as may be designated by said Department of Agriculture from time to time.

This Bond is the Bond in fully registered form representing a total authorized issue of Bonds in the principal amount of \$350,000 issued by the District pursuant to the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 74 and 106 of the Kentucky Revised Statutes, and pursuant to a duly adopted Resolution of the District, for the purpose of paying the costs (to the extent not otherwise provided to be paid) of the construction and installation of major extensions and additions to the District's municipal water distribution system (the "System"), together with appurtenant facilities, and incidental expenses.

This Bond and the issue which it represents, together with such additional bonds ranking on a parity therewith as have heretofore been issued and are outstanding and as may hereafter be issued and outstanding from time to time in accordance with the conditions and restrictions set forth in the resolution authorizing the issuance of this Bond, are payable from and secured by a pledge of a fixed portion of the income and revenues to be derived from the operation of the System, which fixed portion shall be sufficient to pay the principal of and interest on this Bond and the issue which it represents, and any outstanding parity bonds, as and when the same shall become due and payable, and which shall be set aside as a special fund for that purpose and identified as the "Water System Bond and Interest Sinking Fund."

A statutory mortgage lien upon the System and appurtenant facilities, together with all future additions and improvements thereto, and extensions thereof, is created by Section 106.080 of the Kentucky Revised Statutes and by the aforesaid Resolution for the benefit and protection of the holder of this Bond, and the same shall remain in effect until payment in full of the principal of and interest on this Bond.

This Bond does not in any manner constitute an indebtedness of the District within the meaning of the Statutes and Constitution of Kentucky, and the District is not and shall not be obligated to pay this Bond or the interest hereon except from said special fund. The District, acting by and through its Commission, covenants that it will fix, and if necessary adjust from time to time, such rates and charges for use of the services and facilities of the System and will collect and account for the income and revenues therefrom sufficient to pay promptly the interest on and principal of this issue of Bonds, and all other bonds ranking on a parity therewith as may be issued and outstanding from time to time in accordance with the conditions and restrictions prescribed in that connection, as well as to pay the costs of operation and maintenance of the System.

This Bond shall be registered as to principal and interest in the name of the holder hereof, after which it shall be transferable only upon presentation to the Secretary of the District, as the Bond Registrar, with a written transfer duly acknowledged by the registered holder or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the books of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after July 1, 2015, in the inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof in multiples of Five Hundred Dollars (\$500) as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered holder of the Bond at least thirty (30) days prior to the date fixed for prepayment. Provided, however, that so long as the United States of America, Department of Agriculture, is the registered holder of this Bond, this Bond may be prepaid at any time in whole or in part, at par or face value and without notice or prepayment premium.

Upon default in the payment of any principal or interest payment on this Bond or upon failure by the District to comply with any other provisions of this Bond or with the provisions of the resolution authorizing the issuance of this Bond, the registered holder may, at his option, institute proceedings to enforce all rights and remedies provided by law or by said resolution.

This Bond is exempt from *ad valorem* taxation in the Commonwealth of Kentucky.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, being the total authorized amount of Bonds of the issue which this Bond represents, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF, the South Anderson Water District, in the Commonwealth of Kentucky, by its Commission, has caused this Bond to be executed by the Chairman of its Commission, attested by the Secretary, and its corporate seal to be hereunto affixed, on the date of this Bond, which is _____.

SOUTH ANDERSON WATER DISTRICT

Attest:

By _____
Chairman of the Commission

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the books of the South Anderson Water District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to the Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered holder or his attorney, such transfer to be made on said books and endorsed hereon.

(FORM OF REGISTRATION)

<u>Date of Registration</u>	<u>Name of Registered Holder</u>	<u>Signature of the Water District's Bond Registrar</u>
	United States of America Department of Agriculture State Office 771 Corporate Dr., Suite 200 Lexington, Kentucky 40503*	

*(To be inserted if USDA purchases the 2005 Bonds)

SECTION 6

DISPOSITION OF 2005 BOND PROCEEDS; CONSTRUCTION FUND

The Secretary of the District shall be the custodian of all funds belonging to and associated with the System, as expanded and improved from time to time, and such funds shall be deposited in such bank or banks in Kentucky as the Commission of the District may from time to time designate (hereinafter sometimes referred to, singularly and collectively, as the "Depository Bank"). All such moneys of the District deposited in the Depository Bank in excess of the amount insured by the Federal Deposit Insurance Corporation ("FDIC") shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The Secretary shall execute a fidelity bond in an amount and with a surety company approved by USDA so long as it is the holder of any of the 2005 Bonds; and USDA and the District shall be named co-obligees in such surety bond, and the amount thereof shall not be reduced without the written consent of USDA. The proceeds of the 2005 Bonds shall be applied as follows:

Upon the issuance and delivery of the 2005 Bonds authorized by this Resolution, the entire proceeds thereof shall be deposited in an account designated "South Anderson Water District 2005 Construction Fund" (the "Construction Fund"), hereby created. The 2005 Bond

proceeds shall constitute a part of the Construction Fund and shall be applied, to the extent necessary, in paying the costs incident to constructing, installing and acquiring the Project, including expenses incurred in the issuance of the 2005 Bonds and paying interim financing obligations (both principal and interest) incurred in connection with the Project as authorized by a separate interim financing Resolution of the Commission of the District; provided, however, any 2005 Bond proceeds so used to pay such interim financing obligations may be disbursed directly to the appropriate lending institution(s) without the requirement of being deposited to the Construction Fund.

A sum in the Construction Fund estimated to be equal to interest which will accrue on the 2005 Bonds (following delivery thereof) during construction and development of the Project shall be earmarked, used and applied to the payment of interest on the 2005 Bonds next becoming due.

Disbursements from the Construction Fund shall be made by checks signed by the District Secretary, and such disbursements shall be authorized and approved in writing by the District Chairman and Secretary and, if USDA is the purchaser of the 2005 Bonds, by USDA (if USDA so requires). Reference is made in this connection to the provisions of the separate interim financing Resolution adopted concurrently herewith.

Pending disbursement, the 2005 Bond proceeds shall be deposited, as aforesaid, in the Construction Fund, and to the extent that such deposit causes the aggregate deposits by the District in the Depository Bank to be in excess of the amount insured by FDIC, the same shall be secured by a surety bond or bonds furnished by a surety company or companies qualified to do business in Kentucky and approved by the Commission of the District, or by a valid pledge of direct obligations of the United States Government, or obligations as to which the payment of principal and interest are guaranteed by the United States Government, having a market value at least equivalent to such deposit.

Where the moneys on deposit in the Construction Fund exceed the estimated disbursements on account of the Project for the next 60 days, the District shall direct the Depository Bank to invest such excess funds in direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government, which shall mature not later than six months after the date of such investment and which shall be subject to redemption at any time by the holder thereof. The earnings from any such investments shall be deposited in the Construction Fund by the District, unless otherwise authorized by USDA.

In the event any unexpected balance shall remain in the Construction Fund after completion of the Project, and payment of all of the costs thereof, as certified by the Engineers, such unexpended balance, subject to the terms and conditions of the aforesaid USDA loan, and to USDA approval, shall be transferred and deposited in the Water System Bond and Interest Sinking Fund, hereinafter referred to, and shall be used at the earliest practicable date for the retirement of 2005 Bonds by purchase thereof (or principal prepayment) in inverse order of

maturities or established annual payment amounts, and in proportion to the principal amount of the series (insofar as practicable).

In the event that the amount hereinabove provided to be set aside from 2005 Bond proceeds for payment for interest during the construction and development of the Project should prove to be insufficient for such purpose, additional moneys may, upon approval by USDA, be withdrawn from the Construction Fund and so applied, inasmuch as interest during such period is a proper part of the cost of the Project, to the extent authorized by USDA.

Pending disbursements for the authorized purposes, the proceeds of all 2005 Bonds at any time issued pursuant to this Resolution shall be subject to a first and paramount lien and charge in favor of the holders of 2005 Bonds issued and outstanding hereunder and for their further security.

SECTION 7

OPERATION OF SYSTEM; FLOW OF FUNDS; ACCUMULATION OF REVENUES

From and after issuance and delivery of the 2005 Bonds, and so long as any of the 2005 Bonds or parity bonds remain outstanding and unpaid, the System shall continue to be operated on a fiscal year basis beginning each January 1 and ending on the last day of the next December, as at present, and on that basis the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created by the 1975 Resolution and designated and identified as the District's "Water Revenue Fund" (the "Revenue Fund"), which shall continue to be maintained by the District, and into which shall be deposited all income and revenues of the System (to the extent not otherwise provided to be deposited hereinafter). The moneys in the Revenue Fund from time to time shall be used and disbursed and applied by the District, as permitted by applicable statutes, as follows:

(A) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created in and by the 1975 Resolution and designated and identified as the District's "Water System Bond and Interest Sinking Fund" (the "Bond Fund"), which shall continue to be maintained so long as any of the Prior Bonds, the 2005 Bonds or parity bonds herein permitted to be issued are outstanding; and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the Prior Bonds, the 2005 Bonds and any parity bonds hereafter issued and outstanding pursuant to the provisions of this Resolution.

There shall continue to be set aside and transferred on or before the 20th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the Bond Fund sums

sufficient to pay when due the principal and interest requirements on the Prior Bonds, the 2005 Bonds and any parity bonds. Specifically, there shall be paid into the Bond Fund on or before the 20th day of each month, on account of the Prior Bonds and the 2005 Bonds, not less than the following:

- (i) a sum which together with other funds available in the Bond Fund for such purpose will be equal to one-sixth (1/6) of the next succeeding interest installment to become due on all Prior Bonds and 2005 Bonds then outstanding; and
- (ii) a sum which together with other funds available in the Bond Fund for such purpose will be equal to one-twelfth (1/12) of the principal of all Prior Bonds and 2005 Bonds maturing on the next succeeding January 1.

In the event additional parity bonds are issued pursuant to the conditions and restrictions hereinafter prescribed in that connection, the monthly deposits to the Bond Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

If for any reason there should be a failure to pay into the Bond Fund the full amounts above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the Bond Fund from the first available income and revenues of the System, subject to the aforesaid priorities.

No further payments need be made into the Bond Fund if and when the amount held therein and in the Debt Service Reserve Fund hereinafter created is at least equal to the amount required to retire all outstanding Prior Bonds and 2005 Bonds and parity bonds and paying all interest that will accrue thereon.

(B) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, is hereby created and designated and identified as the "Water System Revenue Bond Debt Service Reserve Fund" (the "Debt Service Reserve Fund"), which shall be maintained so long as there are outstanding any parity bonds herein permitted to be issued on a parity with the Prior Bonds and 2005 Bonds, except those parity bonds the original purchaser or purchasers of which have waived the benefit of, and any claim to, the Debt Service Reserve Fund. Parity bonds which may be issued and outstanding from time to time as hereinafter permitted and with respect to which the original purchaser or purchasers have not waived the benefit of and claim to the Debt Service Reserve Fund are hereafter referred to as "qualified parity bonds." The purchaser of the Prior Bonds other than the 1999 Bonds, by its acceptance of the Prior Bonds other than the 1999 Bonds, has been, and the purchaser of the 2005 Bonds shall be, deemed to have elected, for itself and on behalf of all subsequent holders of the Prior Bonds other than the 1999 Bonds, to waive the benefit of and any claim to the Debt Service Reserve Fund, which presently secures only the 1999 Bonds.

All moneys deposited in the Debt Service Reserve Fund from time to time shall be held and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the outstanding qualified parity bonds, if any, if and to the extent insufficient funds are available therefor in the Bond Fund. Whenever the amount in the Debt Service Reserve Fund is less than the Reserve Amount, hereinafter defined, the amount necessary to restore the balance in the Debt Service Reserve Fund to the Reserve Amount shall be paid into the Debt Service Reserve Fund in thirty-six (36) equal monthly installments, each payable on the twentieth (20th) day of the month (except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day) from the Revenue Fund, after making the deposits set out in subsection (B) above, until the Reserve Amount is on deposit in the Debt Service Reserve Fund. The term "Reserve Amount" as used herein means an amount of money equal to the lesser of (i) the maximum principal and interest requirement on the outstanding qualified parity bonds in any year ending January 1, (ii) and amount equal to 125% of the average annual debt service on the outstanding qualified parity bonds in any year ending January 1, and (iii) an amount equal to 10% of the proceeds of all such qualified parity bonds within the meaning of Section 148(d) of the United States Internal Revenue Code of 1986, as amended.

Any amount in the Debt Service Reserve Fund in excess of the Reserve Amount shall be transferred to the Bond Fund and applied as credit against payments into the Bond Fund from the Revenue Fund on a monthly basis as described in the foregoing subsection (A).

(C) All moneys held in the Revenue Fund, the Bond Fund and the Debt Service Reserve Fund shall be deposited in a bank or banks which are members of the Federal Deposit Insurance Corporation ("FDIC") selected by the District from time to time (in each case, a "Depository Bank"), and all such deposits which cause the aggregate deposits of the District in any one Depository Bank to be in excess of the amount insured by FDIC shall be continuously secured by a valid pledge of direct obligations of the United States of America having an equivalent market value. All or any part of the Revenue Fund and the Bond Fund may, and the Debt Service Reserve Fund shall, be invested in Investment Obligations, as hereinafter defined, maturing or being subject to retirement at the option of the holder on such dates as the same may be needed for meeting interest and/or principal payments, and all such investments shall be carried to the credit of the Fund which supplied the funds for such investments, and the income from such investments shall be credited to the Bond Fund; provided, however, if the amount in the Debt Service Reserve Fund is less than the Reserve Amount, income from investments in the Debt Service Reserve Fund shall be credited to the Debt Service Reserve Fund until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Fund shall be valued at cost.

Investment income accruing to the Bond Fund shall be credited against payments into the Bond Fund from the Revenue Fund on a monthly basis as set out in the foregoing subsection (A) hereof.

As used in this Resolution, the term "Investment Obligations" shall mean any of the following, if and to the extent the following are legal investments for the moneys held in the funds and accounts established pursuant to this Resolution: (i) general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, and any certificate or other evidence of an ownership interest in any such securities or in specified portions thereof consisting of the principal thereof or the interest thereon or any combination thereof; (ii) obligations of any agency or instrumentality of the United States of America the payment of principal of and interest on which is backed by the full faith and credit of the United States of America; (iii) savings accounts, interest-bearing time deposits or certificates of deposit in any national bank or bank chartered in Kentucky authorized to engage in the banking business the deposits of which shall be insured by the Federal Deposit Insurance Corporation ("FDIC") and having a combined capital and surplus aggregating not less than Two Million Dollars (\$2,000,000); provided, however, that each such deposit shall be continuously secured (to the extent not insured by FDIC) by lodging with a separate bank or trust company approved by the District, as custodian, collateral security in the form of obligations described in (i) or (ii) above having a market value (exclusive of accrued interest) at all times not less than the amount of such deposit (to the extent not insured by FDIC), which collateral security shall be valued by the District at least annually and must be unencumbered and not otherwise pledged and shall be subject to a perfected first lien for the benefit of the District; (iv) repurchase agreements with banks described in (iii) above, continuously secured as provided in (iii) above; (v) money market funds composed of securities described in (i) and (ii) above and rated AAA (or the equivalent thereof) by Standard and Poor's Ratings Services or Moody's Investors Service, Inc., provided that any such investment in money market funds shall not exceed six (6) months in duration; and (vi) bonds, notes or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and instrumentalities.

(D) A separate and special fund or account of the District was created by the 1975 Resolution designated and identified as the District's "Water Depreciation Fund" (the "Depreciation Fund"). After observing the priority of deposits set forth in (A) through (C) above, which are cumulative, there shall be set apart and paid into the Depreciation Fund each month not less than \$1,755 (or more, if fixed by Resolution of the Commission of the District) from the remaining funds in the Revenue Fund, such monthly deposits to continue so long as any bonds payable from the income and revenues of the System remain outstanding and unpaid or until a minimum balance of \$213,600 is reached.

In addition to the above deposits from the Revenue Fund, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn-out or obsolescent properties of the System, if the same be sold upon order of the Commission of the District. Any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System (excluding initial deposits received in aid of a particular project) shall be paid, as received, into the Depreciation Fund.

The Depreciation Fund shall be available and may be withdrawn and used by the District, upon appropriate certification as to the authorization for such withdrawal, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the Annual Budget of Current Expenses (as defined in Section 8 hereof), and the cost of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. The Depreciation Fund shall also be available for transfer to the Bond Fund in order to avoid default in connection with any bonds payable from the Bond Fund or to redeem or purchase Prior Bonds, 2005 Bonds or parity bonds in advance of maturity.

At any time when the accumulations in the Depreciation Fund shall exceed the anticipated current needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in Investment Obligations (as described in subsection (C) of this Section) maturing or subject to redemption at the option of the holder not later than the time anticipated to be needed by the District, but in any event not later than five (5) years after the date of investment; but as and when funds may be required for authorized purposes a sufficient portion thereof shall be converted into cash and so applied. All investments of money in the Depreciation Fund shall be carried to the credit of the Depreciation Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

(E) A separate and special fund or account of the District was created by the 1975 Resolution designated the District's "Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), which shall continue to be maintained for the benefit of the System and all bonds payable from the income and revenues of the System. The District covenants that it will transfer monthly from the moneys in the Revenue Fund, after making the transfers required by (A) through (D) above, to the Operation and Maintenance Fund sums sufficient to pay as they accrue the Current Expenses of operating and maintaining the System pursuant to the Annual Budget, for which provision is hereafter made, and to accrue an operation and maintenance reserve not in excess of anticipated requirements for a two-month period pursuant to the Annual Budget.

At any time when the accumulations in the Operation and Maintenance Fund shall exceed the anticipated current needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in Investment Obligations (as described in subsection (C) of this Section) maturing or subject to redemption at the option of the holder not later than the time anticipated to be needed by the District, but in any event not later than ninety (90) days after the date of investment; but as and when funds may be required for authorized purposes a sufficient portion thereof shall be converted into cash and so applied. All investments of money in the Operation and Maintenance Fund shall be carried to the credit of the Operation and Maintenance Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

(F) Subject to the provisions of subsections (A) through (E) above, which are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred within sixty (60) days after the end of each fiscal year the balance of excess funds in the Revenue Fund on such date to the Depreciation Fund.

* * *

All payments into the above special funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All moneys held in any of the above special funds shall be kept apart from all other District funds and shall be deposited in one or more Depository Bank, and all such deposits which cause the aggregate of all deposits of the District in any Depository Bank to be in excess of the amount secured by FDIC shall (unless invested as herein authorized) be secured by a pledge of direct obligations or by guaranteed bonds or securities of the United States Government having a market value at least equivalent to such excess deposit.

SECTION 8

COVENANTS TO BONDHOLDERS

The District hereby irrevocably covenants and agrees with the holder or holders of any and all 2005 Bonds and parity bonds at any time issued and outstanding pursuant to authority of this Resolution that so long as the same or any part thereof or interest thereon remain outstanding and unpaid:

(A) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky, and by the terms and provisions of this Resolution.

(B) It will at all times operate the System on a revenue-producing basis, and will permit no free services to be rendered or afforded thereby.

(C) It will maintain the System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided; and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of revenues accumulated and set aside for such purposes.

(D) So long as any of the 2005 Bonds are outstanding, it will not sell or otherwise dispose of any of the System facilities or any part thereof, and, except as provided for in this Resolution, it will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the 2005 Bonds.

Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any of its System facilities, provided that:

(i) it is in compliance with all covenants and undertakings in connection with all of its bonds then outstanding and payable from the revenues of the System;

(ii) it will, in the event of sale, apply the proceeds to either (1) redemption of outstanding 2005 Bonds or parity bonds in accordance with the provisions governing prepayment of bonds in advance of maturity, or (2) replacement of the facility so disposed of by another facility the revenues of which shall be incorporated into the System as hereinbefore provided;

(iii) it certifies, prior to any abandonment of use, that the facility to be abandoned is no longer economically feasible of producing net revenues; and

(iv) notwithstanding all of the foregoing, no such sale, abandonment or transfer of System facilities shall be made so long as USDA owns any of the 2005 Bonds, without the written consent and approval of USDA.

(E) It will establish, enforce and collect rates and charges for services rendered and facilities afforded by the System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining it in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all outstanding bonds as aforesaid and the accruing interest thereon, and the accumulation of any required reserves; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution and shall, if necessary, be adjusted from time to time in order to comply herewith; and such rates and charges shall be adequate to provide 1.20 times coverage of average annual principal and interest on all bonds payable from the Bond Fund.

On or before the date of issuance of the 2005 Bonds, the District will adopt a Budget of Current Expenses for the System for the remainder of the then current fiscal year of the System, and thereafter, on or before the first day of each fiscal year so long as any 2005 Bonds are outstanding, it will adopt an Annual Budget of Current Expenses for the ensuing fiscal year, and will file a copy of each such Budget, and of any amendments thereto, in the office of the Secretary of the District, and so long as USDA owns any of the Prior Bonds or parity bonds, will file a copy thereof with USDA and will furnish copies thereof to the holder of any 2005 Bond upon written request. The term "Current Expenses," as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the Bond Fund and the Debt

Service Reserve Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the amounts provided for Current Expenses in the Annual Budget, except upon resolution duly adopted by the Commission of the District determining that such expenses are necessary in order to operate and maintain the System. At the same time, and in like manner, the District agrees that it will prepare an estimate of gross revenues to be derived from operation of the System for each fiscal year, and to the extent that said gross revenues are insufficient to provide for of all payments required to be made into the Bond Fund and the Debt Service Reserve Fund during such ensuing fiscal year, and to make required payments into the Depreciation Fund and the Operation and Maintenance Fund, the District covenants and agrees that it will revise its rates and charges for services rendered by the System, so that the same will be adequate to meet all of such requirements.

(F) It will not at any time make any reduction in any prevailing schedule of rates and charges for use of the services and facilities of the System without first obtaining the written determination of a consulting engineer of national reputation that the proposed reduction will not adversely affect the ability of the District to meet all the requirements set forth in this Resolution.

(G) It will at all times segregate the revenues of the System from all other revenues, moneys and funds of the District, and will promptly and regularly make application and distribution thereof into the special funds provided in this Resolution, in the amounts and with due regard for the priorities herein attributed thereto.

(H) It will keep proper books of record and account, separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries of all transactions relating to the System, and the same shall be available and open to inspection upon reasonable written notice by any 2005 Bondholder, and any agent or representative of a 2005 Bondholder.

(I) It will, within ninety (90) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state-licensed certified public accountant not in the employ of the District on a monthly salary basis, showing all receipts and disbursements, and reflecting in reasonable detail the financial condition and records of the System, including the status of the several funds hereinbefore created and continued, the status of the insurance and fidelity bonding, the number and type of connections, and the current rates and charges, with comments of the auditor concerning whether the books and records are being kept in compliance with this Resolution and in accordance with recognized accounting practices, and will promptly cause a copy of the Audit Report to be filed in the office of the Secretary where it will be available for public inspection, and will promptly mail a copy thereof to USDA and to any holder of 2005 Bonds upon written request. If requested in writing to do so, the District will furnish to any bondholder a condensed form of the balance sheet, and a condensed

form of the operating report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the System, and may be paid from revenues allocated for such purposes, as herein provided. Provided, so long as USDA holds any of the bonds of the District, the District shall furnish operating and other financial statements in such form and substance and for such periods as may be requested by USDA.

(J) Any holder of 2005 Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by the District and its officers and agents of all duties imposed or required by law or this Resolution in connection with the operation of the System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof.

(K) If there be any default in the payment of the principal of or interest on any of the 2005 Bonds, then upon the filing of suit by any holder of the 2005 Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System, and for the payment of Current Expenses, and to apply the revenues in conformity with this Resolution and the provisions of said statute laws of Kentucky aforesaid.

(L) The District will cause each officer or other person (other than Depository Banks) having custody of any moneys administered under the provisions of this Resolution to be bonded at all times in an amount at least equal to the maximum amount of such moneys in his custody at any time; each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Commission, and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from moneys available in the Operation and Maintenance Fund.

(M) It will procure, and at all times maintain in force, insurance of all insurable properties constituting parts of, or being appurtenant to, the System to the full insurable value thereof, against damage or destruction by fire, windstorm, and the hazards covered by the standard "extended coverage" policy endorsements or provisions, the premiums therefor to be paid from the Operation and Maintenance Fund; and will deposit all sums collected under the terms of such policies in the Depreciation Fund. Such insurance shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percentum (80%) of the full insurable value of the damaged facility.

(N) The District will procure and at all times maintain public liability insurance relating to the operation of the System, with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death; and not less than \$100,000 from claims

for damage to property of others which may arise from the District's operation of the System.

(O) The District will carry suitable workers' compensation insurance in accordance with law.

(P) If the District owns or operates a vehicle in the operation of the System, the District will procure and at all times maintain vehicular public liability insurance with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death, and not less than \$100,000 against claims for damage to property of others which may arise from the District's operation of vehicles. Provided, notwithstanding (M), (N), (O) and (P) above, that so long as USDA holds any bonds of the District, the District will procure and maintain insurance of such types and amounts as USDA may specify.

(Q) So long as USDA is the holder of any bonds of the District, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of such bonds held by USDA without immediately prepaying all of such bonds held by USDA the lien of which is being so defeased or terminated.

SECTION 9

PARITY BONDS PERMITTED; TERMS

The 2005 Bonds and outstanding parity bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among such bonds, regardless of the fact that they may be actually issued and delivered at different times.

The District hereby reserves the right and privilege of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the 2005 Bonds and any outstanding parity bonds (herein sometimes referred to as "additional parity bonds") in order to pay the costs of extensions, additions and improvements to the System, provided that (a) the written consent of the holders of all 2005 Bonds and any outstanding parity bonds is obtained or (b) either of the conditions set forth in (i) or (ii) below is met:

(i) The net income and revenues of the System for the fiscal year preceding the year in which such additional parity bonds are to be issued were at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to all 2005 Bonds and parity bonds which are then outstanding and the additional parity bonds then proposed to be issued. The term "net income and revenues" as herein used is defined as gross income and revenues of the System (including all payments to the Revenue Fund and interest earnings accruing to the Bond Fund, the Depreciation Fund and

the Operation and Maintenance Fund) less the sum of Current Expenses as defined in subsection (E) of Section 8 hereof. Such showing of net income and revenues for such preceding fiscal year may be represented by the report of the auditors.

(ii) A statement is filed with the Secretary of the District by (a) an independent certified public accountant or firm of certified public accountants not in the regular employ of the District on a monthly salary basis or (b) an independent professional engineer or firm or firms of professional engineers not in the employ of the District on a monthly salary basis and of recognized expertise and good reputation in the field of water engineering and licensed in Kentucky, reciting the opinion based upon necessary investigation that the net income and revenues of the System as defined in (i) above for twelve (12) consecutive months out of the eighteen (18) months preceding the issuance of said additional parity bonds (with adjustments as hereinafter provided) were equal to at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to the 2005 Bonds and any parity bonds then outstanding and the proposed additional parity bonds. The net income and revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional parity bonds, and also to reflect any increase in such net income and revenues by reason of the extensions, additions and improvements to the System the cost of which (in whole or in part) is to be paid through the issuance of such additional parity bonds; but such latter adjustments shall only be made if contracts for the immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into prior to the issuance of such additional parity bonds. All such adjustments to reflect any revision of rates and charges or an increase in net income and revenues by reason of extensions, additions and improvements to the System as aforesaid shall be based upon written certification by (a) an independent professional engineer or firm of professional engineers not in the employ of the District on a monthly salary basis and of recognized expertise and good reputation in the field of water engineering and licensed in Kentucky or (b) an independent certified public accountant or firm of certified public accountants not in the employ of the District on a monthly salary basis.

The District hereby further reserves the right and privilege of issuing additional parity bonds for the purpose of refunding the 2005 Bonds and any parity bonds, or any portion thereof, as may be outstanding, provided that before any additional parity bonds are issued for such purpose, there shall have been procured and filed with the Secretary of the District either (a) the written consent of the holders of all 2005 Bonds and any outstanding parity bonds (other than the bonds being refunded) to such issuance or (b) a statement by an independent certified public accountant or firm of independent certified public accountants reciting the opinion based upon necessary investigation that after the issuance of such additional parity bonds, the net income and revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such additional parity bonds, after taking into account the revised maximum annual debt service resulting from the issuance of such additional parity bonds and from the elimination of the bonds being refunded thereby, are equal to not less than 120% of the maximum annual debt

service requirement for any year ending January 1 with respect to the 2005 Bonds and any parity bonds then outstanding and the proposed additional parity bonds and calculated in the manner specified above.

The original purchaser or purchasers of a series of additional parity bonds may waive the benefit of and any claim to the Debt Service Reserve Fund, in which event such bonds shall not be secured by or payable from the Debt Service Reserve Fund; and the District may make it a condition to the original sale of any series of additional parity bonds that the purchaser or purchasers thereof, by offering to purchase or by purchasing the same, has agreed to such waiver.

The interest payment dates for all such additional parity bonds shall be semiannually on January 1 or July 1 of each year, and the principal maturities thereof shall be on January 1 of the year in which any such principal is scheduled to become due.

The additional parity bonds, the issuance of which is restricted and conditioned by this Section, shall be understood to mean bonds payable from the income and revenues of the System on a parity with the 2005 Bonds and outstanding parity bonds, and shall not be deemed to include or prohibit the issuance of other obligations the security and source of payment of which is subordinate and subject to the priority of the payments into the Bond Fund for account of the 2005 Bonds and any parity bonds, and into the Debt Service Reserve Fund for the account of the 1999 Bonds.

SECTION 10

PROVISIONS OF RESOLUTION CONSTITUTE CONTRACT

The provisions of this Resolution shall constitute a contract between the District and the holders of the 2005 Bonds herein authorized and any parity bonds herein permitted to be issued, and after the issuance of any of the 2005 Bonds, no change, variation or alteration of any kind of the provisions of this Resolution shall be made in any manner without the written consent of the holder or holders of the 2005 Bonds, except as herein provided, until such time as all of the 2005 Bonds and parity bonds issued hereunder, and the interest thereon, have been paid in full.

SECTION 11

STATUTORY MORTGAGE LIEN ACKNOWLEDGED

A statutory mortgage lien upon the System, together with all appurtenances and additions thereto and extensions thereof, and including the revenues thereof, is granted and created by Section 106.080 of the Kentucky Revised Statutes for the benefit and protection of the holders of the 2005 Bonds issued and parity bonds permitted to be issued under authority of this Resolution, and previously issued and outstanding parity bonds, and of the interest payable thereon; and said statutory mortgage lien is hereby recognized and shall be effective upon delivery of any of the

2005 Bonds and shall continue in full force and effect so long as there shall remain unpaid any part of the principal of or interest on the 2005 Bonds and any parity bonds.

SECTION 12

TAX COVENANTS AND REPRESENTATIONS

(A) The District certifies, covenants and agrees that the Project will be constructed expeditiously and the expenditure of the portion of the proceeds of the 2005 Bonds deposited in the Construction Fund for the payment of the costs of the Project will be made promptly in order that the Project will be completed and in operation at the earliest possible date. The District further certifies and covenants with the holders of the 2005 Bonds that so long as any of the 2005 Bonds remain outstanding, moneys on deposit in any fund or account in connection with the 2005 Bonds, whether or not such moneys were derived from the proceeds of the sale of the 2005 Bonds or from any other sources, will not be invested or used in a manner which will cause the 2005 Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and any lawful regulations promulgated or proposed thereunder, as the same presently exist, or may from time to time hereafter be amended, supplemented or revised. The Chairman and/or Secretary as the officers of the District charged with the responsibility for issuing the 2005 Bonds, are authorized and directed, for and on behalf of the District, to execute all papers, documents, certificates and other instruments that may be required for evidencing compliance with federal "arbitrage bond" regulations, and any representations and certifications contained in such papers, documents, certificates and other instruments so executed shall be deemed to constitute representations and certifications of the District.

(B) The District further represents, warrants, agrees, covenants and certifies as follows:

(i) Within the meaning of Section 141 of the Code and the Income Tax Regulations issued thereunder, over the term of the 2005 Bonds (i) less than 10% of the proceeds of the 2005 Bonds, if any, will be applied for any private business use, and the payment of principal of or interest on less than 10% of the amount of the 2005 Bonds, if any, will be secured directly or indirectly by any interest in property used for a private business use, or payments in respect of such property, or will be derived directly or indirectly from payments (whether or not to the District) in respect of such property; (ii) at least 90% of the proceeds of the 2005 Bonds will be applied for a governmental use of the District; (iii) any private business use of the facilities financed by the 2005 Bonds will be related to such governmental use of the District and will not be unrelated or disproportionate; and (iv) none of the proceeds of the 2005 Bonds will be used, directly or indirectly, to make or finance loans to private persons. It is reasonably expected that over the term of the 2005 Bonds (a) the facilities financed by the 2005 Bonds will be available for general public use, in that it will be reasonably available for use by natural persons not engaged in a trade or business on the same basis as any other person or entity, (b) no government person will have any special legal entitlement to use the facilities financed by the 2005 Bonds and (c) there will be no direct or indirect payment made with respect to the facilities financed by the 2005 Bonds or the

security of the 2005 Bonds by any persons or entities other than payment by the general public as described in clause (a) above.

(ii) It is reasonably expected that during the term of the 2005 Bonds the facilities financed by the 2005 Bonds will not be disposed of; provided, however, should there be any disposition of any personal property constituting a part of the facilities financed by the 2005 Bonds because it is no longer suitable for its governmental purpose, it is reasonably expected that the fair market value of such personal property will not exceed 25% of its costs.

(iii) The weighted average maturity of the 2005 Bonds does not exceed 120% of the weighted average useful life of the facilities comprising the facilities financed by the 2005 Bonds.

(iv) The District will not use or permit the use of any of the funds provided by the 2005 Bonds in such a manner as to, or take or omit to take any action which would, impair the exclusion from gross income for federal income tax purposes of interest on the 2005 Bonds. The District shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the 2005 Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

(v) Within the meaning of Section 148(f)(4)(B) of the Code, it is reasonably expected at least 75% of the net proceeds (including investment proceeds) of the 2005 Bonds will be used for construction expenditures with respect to property which is owned by a governmental unit, at least 10% of such proceeds will be spent for the governmental purposes of the issue within six months from the date the 2005 Bonds are issued, at least 45% of such proceeds will be spent for such purposes within one year from such date, at least 75% of such proceeds will be spent for such purposes within eighteen months from such date, and at least 100% of such proceeds will be spent within two years from such date. If for any reason the arbitrage rebate requirements of Section 148(f) of the Code should be deemed to apply to the 2005 Bonds, the District will take all action necessary to comply therewith.

(vi) The 2005 Bonds are not federally guaranteed within the meaning of Section 149(b) of the Code.

(vii) The District will comply with the information reporting requirements of Section 149(e) of the Code.

(viii) This Resolution is intended to and does constitute, in part, a declaration of official intent under applicable Income Tax Regulations.

SECTION 13

SEVERABILITY CLAUSE

If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution.

SECTION 14

REPEAL OF INCONSISTENT PROVISIONS

All resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

SECTION 15

WHEN RESOLUTION EFFECTIVE

This Resolution shall be in full force and effect from and after its adoption, approval and attestation as provided by law.

ADOPTED BY THE COMMISSION OF THE SOUTH ANDERSON WATER DISTRICT, ANDERSON COUNTY, KENTUCKY, at a meeting held on the ____ day of _____, 2005, on the same occasion signed by the Chairman, attested by the Secretary, and declared to be in full force and effect.

Chairman of the Commission

Attest:

Secretary

Certification

The undersigned, Secretary of the Commission of South Anderson Water District, Anderson County, Kentucky, hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission at a properly convened meeting of the Commission of said District held on the ____ day of _____, 2005, signed by the Chairman thereof, and attested under seal by me as Secretary, as shown by the official records in my custody and under my control.

WITNESS my hand this ____ day of _____, 2005.

Secretary

Exhibit F



United States Department of Agriculture
Rural Development
Kentucky State Office

August 19, 2005

Mr. Robert Kincer, Chairman
South Anderson Water District
P.O. Box 16
Lawrenceburg, Kentucky 40342

Re: Letter of Conditions Dated June 18, 2004

Dear Mr. Kincer:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated June 18, 2004. The purpose of this amendment is to revise the rates and charges

Paragraph numbered "24" is revised to read as follows:

" 24. Rates and Charges:

Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the utility system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First	2,000	gallons @ \$	16.03 - Minimum Bill.
Next	1,000	gallons @ \$	7.85 - per 1,000 gallons.
Next	2,000	gallons @ \$	6.80 - per 1,000 gallons.
Next	2,000	gallons @ \$	5.81 - per 1,000 gallons.
Next	3,000	gallons @ \$	4.77 - per 1,000 gallons.
All Over	10,000	gallons @ \$	4.44 - per 1,000 gallons.

Bulk Load Station Rate \$ 3.57 - per 1,000 gallons. "

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,

Kenneth Slone
KENNETH SLONE
State Director

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD)

South Anderson Water District

cc: Area Director - Shelbyville, Kentucky
Rural Development Manager - Nicholasville, Kentucky
Bluegrass ADD - Lexington, Kentucky
Ray Edelman - Lawrenceburg, Kentucky
Harper, Ferguson & Davis - Louisville, Kentucky
Kenvirons, Inc. - Frankfort, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



**United States Department of Agriculture
Rural Development
Kentucky State Office**

June 18, 2004

Mr. Robert Kincer, Chairman
South Anderson Water District
P.O. Box 16
Lawrenceburg, Kentucky 40342

Dear Mr. Kincer:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$350,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$971,600, and a Kentucky Tobacco Development Fund grant of \$750,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

South Anderson Water District

Page 2

1. Number of Users and Their Contribution:

There shall be 2,361 water users, of which 2,121 are existing users and 240 are new users contributing \$101,700 in connection fees toward the cost of the project. The connection fees will be collected prior to advertising for construction bids and will be placed in the construction account at loan pre-closing, unless spent for authorized purposes prior to loan pre-closing. The Area Director will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids. No contribution is required from the Water District.

2. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the bond. Principal payment will not be deferred for a period in excess of two years from the date of the bond. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January 1st and July 1st) and principal will be due on or before the first of January. Rural Development may require the Water District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments.

3. Recommended Repayment Method:

Payments on this loan can be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form SF 5510, "Authorization Agreement for Preauthorized Payments," should be signed by the District to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Area Director will furnish the necessary forms and further guidance on the PAD procedure.

4. Funded Depreciation Reserve Account:

The Water District will be required to deposit \$160.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$19,200. The deposits are to be resumed any time the account falls below the \$19,200.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the Water District's prior bond resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

5. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds, if possible. If this is not possible, the bond will be subordinate and junior to the existing bonds, in which case the Water District will be required to abrogate its right to issue additional bonds ranking on a parity with the existing bonds, so long as any unpaid indebtedness remains on this bond issue.

South Anderson Water District

Page 3

6. Land Rights and Real Property:

The Water District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

7. Organization:

The Water District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

8. Business Operations:

The Water District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Water District after review by Rural Development. At no later than loan pre-closing, the Water District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

9. Accounts, Records and Audits:

The Water District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits) in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed.

10. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Water District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Water District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

11. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Water District. The Water District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Water District will carry worker's compensation insurance for employees in accordance with applicable state laws.

South Anderson Water District

Page 4

- C. Fidelity Bond - The Water District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$150,000.
- D. Real Property Insurance - The Water District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Water District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Water District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

12. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "21" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Area Director is prepared to furnish the necessary guide to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
 - 1. Final plans, specifications and bid documents.
 - 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
 - 3. Legal Service Agreements.
 - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the Water District will obtain advance clearance from Bond Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

South Anderson Water District

Page 5

13. Compliance with Section 504 of the Rehabilitation Act of 1973:

The Water District will be required to comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), in order to make sure no handicapped individual, solely by reason of their handicap, is excluded from participation in the use of the water system, be denied the benefits of the water system, or be subjected to discrimination.

14. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Water District.

15. Compliance with Special Laws and Regulations:

The Water District will be required to conform with any and all state and local laws and regulations affecting this type project.

16. System Operator:

The Water District is reminded that the system operator must have an Operator's Certificate issued by the State.

17. Prior to Pre-Closing the Loan, the Water District Will Be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Water District must offer the opportunity for all residents in the service area to become users of the facilities regardless of race, creed, color, religion, sex, national origin, marital status, physical or mental handicap or level of income.

18. Refinancing and Graduation Requirements:

The Water District is reminded that if at any time it shall appear to the Government that the Water District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Water District will apply for and accept such loan in sufficient amount to repay the Government.

South Anderson Water District

Page 6

19. Commercial Interim Financing:

The Water District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the Water District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

20. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Water District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the Water District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the Water District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the Water District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the Water District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Monthly audits of the Water District's construction account records shall be made by Rural Development.

21. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,712,300
Land and Rights	12,000
Legal and Administrative	69,000
Engineering	193,800
Interest	15,000
Contingencies	<u>171,200</u>
TOTAL	\$ 2,173,300

South Anderson Water District

Financing:

RUS Loan	\$ 350,000
Ky. Tobacco Development Fund Grant	750,000
HUD-CDBG	971,600
Applicant Contribution	<u>101,700</u>
TOTAL	\$ 2,173,300

22. Debt Collection Improvement Act (DCIA) of 1996:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all federal payments after January 1, 1999, must be made by Electronic Funds Transfer/Automated Clearing House (EFT/ACH). Borrowers receiving payments by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

23. Use of Remaining Project Funds:

The applicant contribution shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be HUD-CDBG/Kentucky Development Fund grant funds and refunded in proportion to participation in the project.

24. Rates and Charges:

Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First	2,000	gallons @ \$	12.50 - Minimum Bill.
Next	1,000	gallons @ \$	6.10 - per 1,000 gallons.
Next	2,000	gallons @ \$	5.15 - per 1,000 gallons.
Next	2,000	gallons @ \$	4.25 - per 1,000 gallons.
Next	3,000	gallons @ \$	3.30 - per 1,000 gallons.
All Over	10,000	gallons @ \$	3.00 - per 1,000 gallons.
Bulk Load Station Rate			\$ 3.80 - Per 1,000 gallons.

25. Water Purchase Contract:

The Water District will submit a Water Purchase Contract for approval by Rural Development before advertising for construction bids. If the contract is not on Form RD 442-30, "Water Purchase Contract," the contract will require approval by our Regional Attorney. The contract must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

South Anderson Water District

Page 8

26. Commitment of HUD-CDBG and Ky. Tobacco Development Fund Grant Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the HUD-CDBG grant in the amount of \$971,600 and for the Kentucky Tobacco Development Fund grant in the amount of \$750,000.

27. Floodplain Construction:

The Water District will be required to pass and adopt a Resolution or amend its By-Laws whereby the Water District will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Water District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

28. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Kentucky Department for Local Government letter dated April 14, 2004, from Mr. Ronald A. Cook, Manager.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated June 8, 2004, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without affect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

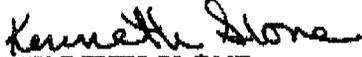
29. Final Approval Conditions:

Final approval of this assistance will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

South Anderson Water District

If you desire to proceed with your application, the Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,


KENNETH SLONE
State Director

Enclosures

cc: Area Director - Shelbyville, Kentucky
Rural Development Manager - Nicholasville, Kentucky
Bluegrass ADD - Lexington, Kentucky
Ray Edelman - Lawrenceburg, Kentucky
Harper, Ferguson & Davis - Louisville, Kentucky
Kenvirons, Inc. - Frankfort, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

June 30, 2005

Attn: William W. Davis
Ogden, Newell & Welch
1700 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202-2874

Re: South Anderson Water District
\$350,000 Bond Issue

Dear Mr. Davis:

We are enclosing the Maturity Schedule for the referenced Bond Issue. The required deposits to the Funded Depreciation Reserve Account are \$160.00 per month with a required level of \$19,200. The Rural Development loan of \$350,000 was approved at an interest rate of 4.375%.

We are attempting to obtain the Regional Attorney's Closing Instructions at an earlier date in an effort to avoid delays in scheduling bond sales and pre-closing. Hopefully, you will be able to draft the bond authorizing documents at such a time to coincide with the Advertisement for Construction Bids. We plan to request Closing Instructions at the same time we authorize the Water District to advertise for construction bids.

Please provide this office with one copy of the proposed documents and forward one copy to the Rural Development Area Office.

Please let us know if you have any questions.

Sincerely,


KENNETH SLONE
State Director

Enclosure

cc: Area Director - Shelbyville, Kentucky
Kenvirons, Inc. - Frankfort, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

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REPORT



**RURAL UTILITIES SERVICE
BOND SCHEDULE, 6/30/2005**



Name of Borrower: South Anderson Water District			
Amount of Loan	350000	Annual Interest Rate	0.04375
Number of Initial Interest Only Payments	2	Number of principal and/or Interest Payments	40
Payment Frequency	Annual	This is a split payment bond.	false
Principal Payment Units	500	Interest Payment Units	1

YEAR	PERIOD	NUMBER	PAYMENT	INTEREST	PRINCIPAL	BALANCE
2006	I	1	15313	15313	0	350000
2007	I	2	15313	15313	0	350000
2008	I	3	18813	15313	3500	346500
2009	I	4	19160	15160	4000	342500
2010	I	5	18985	14985	4000	338500
2011	I	6	18810	14810	4000	334500
2012	I	7	19135	14635	4500	330000
2013	I	8	18938	14438	4500	325500
2014	I	9	19241	14241	5000	320500
2015	I	10	19022	14022	5000	315500
2016	I	11	19304	13804	5500	310000
2017	I	12	19063	13563	5500	304500
2018	I	13	18822	13322	5500	299000
2019	I	14	19082	13082	6000	293000
2020	I	15	18819	12819	6000	287000
2021	I	16	19057	12557	6500	280500
2022	I	17	19272	12272	7000	273500
2023	I	18	18966	11966	7000	266500
2024	I	19	19160	11660	7500	259000
2025	I	20	18832	11332	7500	251500
2026	I	21	19004	11004	8000	243500
2027	I	22	19151	10654	8500	235000
2028	I	23	19282	10282	9000	226000
2029	I	24	18888	9888	9000	217000
2030	I	25	18994	9494	9500	207500
2031	I	26	19079	9079	10000	197500
2032	I	27	19141	8641	10500	187000
2033	I	28	19182	8182	11000	176000
2034	I	29	19200	7700	11500	164500
2035	I	30	19197	7197	12000	152500
2036	I	31	19172	6672	12500	140000
2037	I	32	19125	6125	13000	127000
2038	I	33	19057	5557	13500	113500
2039	I	34	18966	4966	14000	99500
2040	I	35	18854	4354	14500	85000
2041	I	36	19219	3719	15500	69500
2042	I	37	19041	3041	16000	53500
2043	I	38	18841	2341	16500	37000
2044	I	39	19110	1619	17500	19500
2045	I	40	20354	854	19500	0
TOTALS			755976	405976	350000	